

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company	:	
d/b/a Ameren Illinois	:	
	:	Docket No. 13-0192
Proposed General Increase in Gas	:	
Rates (Tariffs Filed January 25,	:	
2013).	:	

INITIAL BRIEF OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION
(PUBLIC)

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NOW COME the Staff witnesses of the Illinois Commerce Commission (“Staff”), by and through their undersigned counsel, pursuant to Section 200.800 of the Illinois Commerce Commission’s Rules of Practice (83 Ill. Adm. Code 200.800), and the direction of the Administrative Law Judge (“ALJ”), respectfully submit their Initial Brief (“Staff IB”) in the above-captioned matter.

I. INTRODUCTION

A. Overview

On January 25, 2013, the Ameren Illinois Company d/b/a Ameren Illinois (collectively, “Ameren,” “AIC,” or “Company”) filed with the Illinois Commerce Commission (“Commission”) revised tariff sheets in which they proposed a general increase in gas rates pursuant to Article IX of the Illinois Public Utilities Act (“Act” or “PUA”), 220 ILCS 5/9, to become effective March 11, 2013.

B. Procedural History

On March 6, 2013, the Commission suspended the filing to and including June 23, 2013, for a hearing on the proposed rate increase. On May 15, 2013, the Commission re-suspended the tariffs to and including December 23, 2013.

The following Staff witnesses have submitted testimony in this case: Mary H. Everson (Staff Exs. 1.0 and 10.0 (Rev.)), Daniel G. Kahle (Staff Exs. 2.0R and 11.0 (Rev.)), Mike Ostrander (Staff Exs. 2.0 and 12.0), Bonita A. Pearce (Staff Exs. 4.0R, 9.0 and 13.0), Rochelle Phipps (Staff Exs. 5.0R and 14.0C), Christopher L. Boggs (Staff Exs. 6.0 and 15.0), Dr. David Rearden (Staff Exs. 7.0 and 16.0) and Burma C. Jones (Staff Exs. 8.0 and 17.0).

The following Petitions to Intervene were also granted in this matter: People of the State of Illinois ("AG"), Citizens Utility Board ("CUB") (collectively, "AG/CUB"), the Illinois Competitive Energy Association ("ICEA"), the Retail Energy Supply Association ("RESA") (collectively, "ICEA/RESA"), the Illinois Industrial Energy Consumers ("IIEC"), and the Retail Gas Suppliers ("RGS").

An evidentiary hearing was held in this matter on August 26-29, 2013. The record was marked Heard and Taken. Appendices A through C attached hereto include the Revenue Requirement Schedules proposed by Staff for the gas rate zones, Rate Zone 1, Rate Zone 2, and Rate Zone 3, respectively. Appendix D (Confidential and Public) includes Staff's adjustment for Rate Case Expense.

C. Nature of AIC's Operations

D. Test Year

AIC proposed to use a future test year for the twelve months ending December 31, 2014. No party objected to the use of this test year.

E. Legal Standard

All rates set by the Commission must be "just and reasonable" and any "unjust or unreasonable" rate is unlawful. In this regard, Section 5/9-101 of the PUA provides, in relevant part, that:

All rates or other charges made, demanded or received by any product or commodity furnished or to be furnished or for any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge made, demanded or received for such product or commodity or service is hereby prohibited and declared unlawful. All rules and regulations made by a public utility affecting or pertaining to its charges to the public shall be just and reasonable.

220 ILCS 5/9-101.

II. RATE BASE

A. Resolved Issues

- 1. ADIT Bonus Depreciation**
- 2. Budget Payment Plan Balances**

Staff proposed adjustments to reduce the Company's rate base by the average over-collection associated with the budget payment plans. (Staff Ex. 3.0, 5:87-92; Schedule 3.02.) The over-collection represents a ratepayer funded source of capital and should be deducted from the rate base on which the Company is expected to earn a return. (Id. at 5:93-97; Schedule 3.02.) The Company accepted Staff's adjustments in rebuttal testimony. (Ameren Ex. 17.0R, 30:630-634.)

3. Original Cost Determination

B. Contested Issues

1. ADIT – Step-up Basis Metro

The Commission should accept Staff and AG/CUB's adjustment to remove the deferred tax asset related to the 2005 Metro East Asset Transfer.

Staff and AG/CUB propose an adjustment for each rate zone to remove the deferred tax asset which results from the asset transfer of certain Metro East assets from Union Electric ("UE") to CIPS ("CIPS") in 2005. (Staff Ex. 10.0 (Rev.), Schedules 10.08; AG/CUB Ex. 2.0, 6:117-120; Staff IB, Appendices A through C.) This adjustment results in an increase to the balance of Accumulated Deferred Income Taxes ("ADIT") and, thus, decreases AIC's rate base. (Staff Ex. 1.0, 10:182-185.) The transfer of assets in this transaction occurred between affiliates and should not have resulted in a higher rate base for ratepayers. (Staff Ex. 1.0, 11:181-197.) AG-CUB witness Effron asserts that utility holding companies should not be allowed to increase the net rate base value of assets by transferring the assets between affiliates. (AG/CUB Ex. 6.0, 2:10-14.) Staff demonstrates that CIPS accounting for the transaction results in an increased rate base under CIPS ownership for the same customers after the transaction compared to the rate base under UE's ownership prior to the transaction. (Staff Ex. 10.0 (Rev.), Attachment A; Staff IB, Appendices A through C.) Staff further asserts that no change in the assets or the value to ratepayers occurred as a result of the transaction. (Staff Ex. 1.0, 11-12: 206-209.)

AIC argues every other aspect of the issue except the inequitable ratemaking effect that Staff notes, specifically:

- the tax basis of the assets in the hands of UE prior to the transaction is not relevant to this issue;
- CIPS' tax basis is the purchase price paid by CIPS;
- Since CIPS' tax basis was equal to its book basis at the time of the transaction, then ADIT is zero;
- The deferred taxes on UE's books are related to taxes that UE has deferred, not CIPS; and
- There has been no deferral of taxes on CIPS books. (Ameren Ex. 17.0 (Rev.), 27-28: 587-595.)

As can be seen from the listing above, all of AIC's arguments relate to the tax treatment or effects of the transaction, which are irrelevant to Staff and AG/CUB's adjustment. As Staff explained, AIC responses concern the *cause* of the ratemaking inequity, but fail to address the *effect* of the ratemaking inequity which is the basis of Staff and AG/CUB's adjustment. (Staff Ex. 10.0 (Rev.) 18:302-306.)

2. Pension/OPEB Expense – Employee Benefits Adjustment

This issue includes both rate base and operating expense adjustments and is discussed in Section III.B.1. of Staff's IB.

3. Non-Union Wages

This issue includes both rate base and operating expense adjustments and is discussed in Section III.B.2. of Staff's IB.

4. Cash Working Capital

i. Pass-Through Taxes Lead Days

Staff witness Mr. Kahle proposes to use greater lead days than used by AIC for the pass-through taxes; Energy Assistance Charges ("EAC"), Illinois Gas Use and Gas Revenue Tax ("GAS TAX") and Municipal Utility Tax ("MUT"). (Staff Ex. 11.0 (Rev.), 3-10:65-198.) Staff's cash working capital ("CWC") calculation differs from AIC's in that

Staff uses AIC's calculation of lead days based on when pass-through taxes are required to be remitted (Staff Ex. 2.0, 5:93-106, 7:131-147; Staff Ex. 11.0 (Rev.), 9:175-181.), while AIC calculates lead days based on when AIC bills for services. (Staff Ex. 2.0, 6:124-129, 8:162-169; Staff Ex. 11.0 (Rev.), 10:191-196.)

AIC follows a practice of remitting pass-through taxes based on billing rather than remitting after collection as required. For example:

- EAC is required to be remitted 20 days after the tax is collected. AIC remits EAC by the 20th of the month following billing rather than the 20th of the month following collection. (Staff Ex. 2.0, 5:97-98, 6:108-112.)
- GAS TAX is required to be remitted 15 days after the tax is collected. AIC remits GAS TAX by the 15th of the month following billing rather than the 15th of the month following collection. (Staff Ex. 2.0, 7-8:136-155.)
- MUT is required to be remitted after the tax is collected; however, the number of days varies by municipality. AIC remits MUT in the month following billing rather than in the month following collection. An AIC prepared workpaper calculates the actual lead days based on the required remittance. (Staff Ex. 11.0 (Rev.), 10:183-185.)

AIC's practice of remitting pass-through taxes earlier than required increases rate base by increasing CWC. (Staff Ex. 2.0, 8:157-162.) The result is that ratepayers are penalized with higher rates solely because of the Company's practice of remitting the taxes earlier than the taxes are due. (Staff Ex. 2.0, 8:157-169; Staff Ex. 11.0 (Rev.), 4-5:80-88.)

Lead days for EAC were addressed by the Commission in AIC's two most recent electric formula rate cases; Docket Nos. 12-0293 and 12-0001. (Staff Ex. 2.0, 10:188-191.) In both dockets, the Commission adopted EAC lead days based on when the pass-through taxes were actually due; not when remitted by AIC. (Id.) There is no

difference in the remittance requirements for gas or electric utilities. (Staff Ex. 11.0 (Rev.), 8-9:157-170.)

AIC's claim that Mr. Kahle's proposal would require it to change its remittance schedule is merely a diversion. (Ameren Ex. 25.0, 8:132-147.) Mr. Kahle's proposal is for rate making purposes only. If the Commission adopts Mr. Kahle's proposal, AIC would not need to alter its remittance practices. (Staff Ex. 11.0 (Rev.), 5-6:106-110.)

AG/CUB witness Michael L. Brosch proposed nearly identical adjustments to those of Staff for pass-through tax lead days. (AG/CUB Ex. 1.0, 37-45:895-1061.)

C. Recommended Rate Base

III. OPERATING REVENUES AND EXPENSES

A. Resolved Issues

1. Outside Professional Services

Staff witness Kahle proposed adjustments to decrease AIC's level of outside professional services expenses. Mr. Kahle proposed an adjustment related to out-of-period expenses from the test year in his direct testimony (Staff Ex. 2.0, 17:320-331) which AIC accepted in rebuttal. (Ameren Ex. 17.0 (Rev.), 4:70-72.) Mr. Kahle proposed further adjustments in his rebuttal testimony related to insufficient documentation. (Staff ex. 11.0 (Rev.), 17-18:349-364.) Through a response to a data request received from AIC, Mr. Kahle agreed with AIC's partial acceptance of his second proposed adjustment. (AIC Cross Ex. 7.0.) AIC withdrew its request to recover, in its 2014 future test year, outside consulting expenses associated with SFIO Consulting (\$75,004) and Foley & Lardner LLP (\$33,990). (Id.) Staff, after reviewing the Company's surrebuttal testimony, agreed to withdraw its proposed adjustment to remove, from the Company's

2014 future test year, outside consulting expenses associated with the Guidant Group firm (\$117,608) as indicated on ICC Staff Ex. 11.0, Schedule 11.06. (AIC Cross Ex. 7.)

2. Uncollectible Accounts Expense for Rider GUA

Staff witness Kahle proposed that uncollectibles accounts expense should be calculated using a percentage derived from a three-year average of net write-offs of accounts receivable. (Staff Ex. 2.0, 11:211-226.) Mr. Kahle's proposal resulted in an adjusted Gross Revenue Conversion Factor. (Id. at 11:250-268.) Mr. Kahle further proposed the following language to establish the level of uncollectible accounts expense in Rider GUA – Gas Uncollectible Adjustment to be included in the Final Order:

(x) It is further ordered that the uncollectibles expense included in base rates for AIC is \$yyy for Rate Zone I, \$yyy for Rate Zone II, and \$yyy for Rate Zone III.

(Staff Ex. 2.0, 15:286-294.) AIC accepted these proposals in rebuttal. (Ameren Ex. 17.0 (Rev.), 4:64-82.)

Further, through a response to a data request received from AIC, Mr. Kahle agreed to the Company's proposal to implement a uniform uncollectible factor for purposes of administering Rider GUA going forward. (AIC Cross Ex. 4.)

3. Lobbying Expense

Staff witness Pearce proposed an adjustment to remove lobbying expenses from the test year revenue requirement since Section 9-224 of the Public Utilities Act does not allow rate recovery of lobbying expense. 220 ILCS 5/9-224. Staff's adjustment removed a portion of two employees' salaries that relate to lobbying during 2012, inflated by a factor of two percent to estimate 2013 and 2014 expenses. (Staff Ex. 4.0, Schedule 4.05, 12: 265-271.) In rebuttal testimony, the Company accepted this

adjustment and reflected it in its rebuttal revenue requirement (Ameren Ex. 17.0, 5:97-99.) Accordingly, the original adjustment (Staff Ex. 4.0, Schedule 4.05) for lobbying expense is no longer contested. In Section III.A.6. of Staff's IB, Industry Dues Expense, there is discussion of lobbying expenses, but that is not part of this adjustment.

4. Adjustment to Office Supplies Expense

Staff witness Pearce proposed an adjustment to reduce office supplies expense in the test year revenue requirement (Staff Ex. 4.0, Schedule 4.03.) The Company accepted a portion of Staff's adjustment related to employee recognition expense in its rebuttal revenue requirement (Ameren Ex. 17.0, 5:91-93) and Staff withdrew the remaining portion of the adjustment in Staff's rebuttal testimony (Staff Ex. 13.0, 4-5:88-94.) Accordingly, this expense is no longer contested.

5. Payments to Surviving Spouse of IP Employee

6. Industry Dues Expense

Staff witness Pearce proposed an adjustment to remove certain dues expenses from the test year revenue requirement asserting that the expenses are not recoverable because the costs are either unrelated to the provision of gas service or because the costs relate to lobbying (Staff Ex. 4.0, 11: 228-260.) The Company accepted a portion of Staff's adjustment in its rebuttal revenue requirement (Ameren Ex. 17.4, Sch. 4.) Staff maintained the remaining portion of the original adjustment was related to lobbying by St. Louis Area Business Health Coalition in rebuttal testimony (Staff Ex. 13.0, Schedule 13.04.) In surrebuttal testimony (Ameren Ex. 31.0, 10:193-208) AIC witness Stafford removed the lobbying portion of these dues. This issue is resolved as Staff withdrew the balance of the adjustment because AIC removed the lobbying portion.

B. Contested Issues

1. Pension/OPEB Expense - Employee Benefits Adjustment

Staff witness Kahle proposed adjustments to decrease AIC's level of employee benefits to an updated amount provided by AIC. (Staff Ex. 2.0, 17-18:333-349.) AIC argued that an adjustment based on updated information received from the Company would be a violation of the Commission's test year rules. (Ameren Ex. 16.0, 5-7:97-146.) AIC also argued that there were other instances where projected costs were higher than in the original forecast. (Id. at 7:147-153.)

The Commission's test year rules, however, apply only to a *utility* being allowed or required to file an update of its schedules and workpapers. 83 Ill. Adm. Code 287.30. The rule does not limit or restrict the Commission's ability to consider adjustments based on information gathered during discovery. (Staff Ex. 11.0 (Rev.), 15:278-284.)

Whether the Company has discovered other significant changes in forecasted costs is irrelevant as to whether this proposed adjustment should be adopted. The Company was free to include additional adjustments in its rebuttal testimony, and did, in fact, include one adjustment in its rebuttal revenue requirements. (Staff Ex. 11.0 (Rev.), 15:291-296.)

The Company filed a future test year which included forecasted pension and OPEB expense as of October 31, 2012. A more recent forecast is available that provides an updated 2012 actuarial valuation and assumptions as of December 31, 2012. (Ameren Ex. 16.0, 4:87-90.)

As the Commission has noted regarding Pension and OPEB expense:

Pension and OPEB expense is an inherently unusual expense because it is determined by an actuarial analysis that relies upon various inputs, some of which are subject to potential significant variations. As a result, it appears that pension and OPEB expense is subject to frequent variations, which are, at best difficult to predict and arguably beyond AIU's control. Obviously, this is not the case for most operating expenses.

Ameren Illinois Utilities, ICC Order on Rehearing Docket No. 09-0306 et al., 68 (November 4, 2012).

The Commission treats pension and OPEB differently than other expenses because their frequent variations make them more difficult to predict. Therefore, it is logical that the Commission would want to utilize the most recent, updated actuarial information when determining these costs.

AG/CUB witness Ralph C. Smith proposed a nearly identical proposal titled "RCS-1, Pension and OPEB Expense and Rate Base". (AG/CUB Ex. 4.0, 8-15:171-277.)

2. Non-Union Wages

Staff witness Kahle proposed adjustments to decrease AIC's level of non-union wages to a more reasonable amount. (Staff Ex. 11.0 (Rev.), 12:228-239.) Mr. Kahle proposed an adjustment to reduce the rate of non-union wages to the actual rate of non-union wage increase of 3.59% experienced through June 30, 2013 rather than the 4.00% increase forecast by the Company. (Staff Ex. 11.0 (Rev.), 12-13:228-260.) Further, through a response to a data request received from AIC, Mr. Kahle agreed that it would be appropriate to use a rate of 3.69% rather than a rate of 3.59% based on the most recent actual data available for 2013. (AIC Cross Exhibit 5.)

3. Forecasted Labor Expenses

AG/CUB witness Michael L. Brosch proposed an adjustment to the Company's forecasted labor expenses. (AG/CUB Ex. 1.0, 16-21:342-505.) Mr. Brosch, however, did not identify any specific activities that he considers to be unnecessary for the Company to perform; therefore, he does not associate any of the Company's proposed increases in gas only positions with unnecessary activities. Due to that lack of specifics, Staff did not agree with Mr. Brosch's adjustment. (Staff Ex. 11.0 (Rev.), 18:369-375; AIC Cross Ex. 3.)

Mr. Brosch testified extensively on deficiencies in the Company's responses to AG/CUB data requests, and described a lack of documentation of the Company's forecasting process. (AG/CUB Ex. 1.0, 17-19:378-446.) Staff disagreed with AIC's position that the forecast does not need to be supported with workpapers to document projected costs. (Staff Ex. 11.0 (Rev.), 19:390-401.) Further, Mr. Kahle explained in depth the need for organized, underlying documentation which allows for: the review of the forecasts by third parties; the comparison of financial forecasts with actual financial results; third parties to analyze the key factors on which assumptions are based; and the identification of changes in these factors and their anticipated effects, on a timely basis. (Id. at 19.) To do this, documentation supporting the forecasts must record underlying assumptions and summarize the supporting evidence for the assumptions so third parties can conduct a thorough evaluation. (Id. at 20.) The documentation should be in an organized record that can be maintained and made available for subsequent use or review by the Company or third parties. (Staff Ex. 11.0 (Rev.), 19:402-410.)

In response, AIC committed to make information on its forecasted gas labor and non-labor expenses in connection with future gas delivery rate proceedings in which

AIC uses a future test year available for Staff's review including Gas only headcount - actual vs. monthly projections through the test year and Gas O&M forecasted test year expenses by FERC account and resource type. (Ameren Ex. 32.0, 8:158-166.) AIC also committed to take additional steps in the preparation of future gas forecasts to make more transparent underlying assumptions and inputs for its forecasted labor and non labor expenses including a comparison of the most recent calendar year of actual gas O&M expenses with forecasted test year expenses; written explanations and justifications of significant variances in excess of escalation factors – by resource group within a resource management center or roll-up department; and gas-only headcount staffing forecast with justification of any new employee positions projected to be filled between the filing of AIC's direct case and the end of the test year. (Id. at 8:167-180.)

4. Forecasted Non-Labor Expenses

AG/CUB witness Michael L. Brosch proposed adjustments to the Company's forecasted non-labor expenses. (AG/CUB Ex. 1.0, 22-23:523-532;27-28:666-679.) In particular, Mr. Brosch proposed an adjustment to Corrosion Control to reflect an amount consistent with AIC's historical spending levels. (AG/CUB Ex. 1.3, 2:7) Mr. Brosch revised his adjustment in rebuttal. (AG/CUB Ex. 5.0,44:1096-1102; AG/CUB Ex. 5.1, 2:7) Staff witness Kahle analyzed Mr. Brosch's proposed adjustment to Corrosion Control and adopted Mr. Brosch's revised adjustment. (Staff Ex. 11.0 (Rev.), 20-21:412-424; AIC Cross Ex. 2.)

5. Rate Case Expense

Section 9-229 of the Act states:

The Commission shall specifically assess the justness and reasonableness of any amount expended by a public utility to compensate

attorneys or technical experts to prepare and litigate a general rate case filing. This issue shall be expressly addressed in the Commission's final order.

220 ILCS 5/9-229. Staff witness Phipps reviewed rate case expense associated with the testimony of Mr. Robert B. Hevert regarding the cost of common equity for the Company. Ms. Phipps reviewed the Company's responses to Staff data requests JMO 1.01, JMO 1.02, JMO 1.06 and JMO 1.07, which included invoices for the rate case expense associated with Mr. Hevert's testimony. (Staff Ex. 5.0R, 40:724-726.) Ms. Phipps did not propose an adjustment to the rate case expense associated with Mr. Hevert's testimony. (Id. at 41:729.)

The Commission should accept Staff's adjustment to reflect a reasonable amount of rate case expense, \$2.209 million (Staff IB, Appendix D), to prepare and litigate the current rate case filing. The Company contests Staff's adjustment to reduce the estimated costs for its rebuttal witnesses, and proposes a rate case expense of \$2.413 million for recovery. (Staff Ex. 12.0, 3:41-49; Ameren Ex. 31.0, 12:233-235.)

Staff adjusted the Company's requested rate case expense due to the reduction of rebuttal witnesses' estimated costs from \$224,000 to \$20,000 to reflect the estimated cost for one consultant regarding cash working capital issues. (Staff Ex. 12.0, 4:67-72, Attachments A & B, Schedule 12.01.) No support was provided for the remaining estimated amount of \$204,000 for rebuttal witnesses. (Staff Ex. 12.0, Attachment B (Confidential).) The Company opposes Staff's adjustment because "Mr. Ostrander does not consider the costs for certain rate case tasks that have exceeded the original estimates." (Ameren Ex. 31.0, 12:244-246.) Contrary to the Company's assertion, Staff did consider the actual costs of certain rate case tasks that exceeded the requested

budget amount. (Staff Ex. 12.0, 4:67-78.) The Company, however, failed to provide any support as to why the over budget costs are reasonable compared to the original budget amounts. (Id. at 4:73-78.)

The Company, at this juncture of the rate case, proposes to offset those certain tasks that are currently over budget with those that are presumed to be under budget (rebuttal witnesses). (Ameren Ex. 31.0, 12:233-252.) It asserts that such an offset is consistent with Staff's recommendation in Docket No. 11-0282 where the Company claims Staff witness Tolsdorf recognized the additional cost for completed tasks in his rate case expense recommendation. (Id. at 12:246-248.) The Company entirely mischaracterizes Mr. Tolsdorf's recommendation. Staff witness Tolsdorf's rate case expense recommendation was based upon the Company's original estimated costs less an adjustment to remove merger related costs that the Company agreed to and which the Commission accepted. (Docket No. 11-0282, ICC Staff Ex. 22.0, Schedule 22.04, 3); Ameren Illinois Company, ICC Order Docket No. 11-0282, 46 (January 10, 2012) ("11-0282 Order"). Therefore, the Company's assertion that its proposed offset is consistent with a Staff recommendation in a prior case is unfounded and should be rejected. As with any estimated costs, while actual amounts of certain components may turn out to be more than projected, other actual amounts may turn out to be less than projected and vice versa. A look back to the Company's most recent gas rate case illustrates that the actual rate case expenses incurred of \$2.733 million (Ameren Ex. 37.1 PUBLIC, 1) were less than the requested estimated rate case expenses of \$3.344 million and the Order amount of \$3.063 million. (Docket No. 11-0282, ICC Staff Ex. 22.0, Schedule 22.04, 3)

As explained above, the adjustment recommended by Staff to reflect a reasonable amount of rate case expense for Docket No. 13-0192 is appropriate and should be adopted by the Commission. Additionally, the Commission should include Staff's recommended language in the rate case expense section of its order as follows:

The Commission has considered the costs expended by the Company to compensate attorneys and technical experts to prepare and litigate this rate case proceeding and assesses that such costs in the amount of \$2.209 million are just and reasonable pursuant to Section 9-229 of the Act (220 ILCS 5/9-229).

6. Charitable Contributions

The Commission should reject AIC's proposed increase in charitable contributions as unreasonable as filed and accept Staff's recommended reduction to AIC's level of charitable contributions as set forth in Staff Initial Brief Schedules 1-10 for all rate zones. Staff recommends using a 3-year average of actual charitable contributions from 2010-2012, escalated by a 2% inflation factor for 2013 and 2014 since the Company's 2014 projected level is overstated. (Staff Ex. 10.0 (Rev.), 9:127-130; Staff IB, Appendices A through C.)

Section 9-227 of the Act states that it is proper for the Commission to *consider* as an operating expense, donations made "for the public welfare or for charitable scientific, religious or educational purposes, provided that such donations are reasonable in amount." (220 ILCS 5/9-227.) The Supreme Court of Illinois has said that in determining the reasonableness of the amount of charitable contributions made by a public utility, the Commission must determine the issue based on total contributions rather than on an individualized basis. Business and Professional People for Public Interest v. ICC, 146 Ill.2d 175 (1991). The public utility has the burden of proof to show

that a donation is reasonable in amount; a donation made by a public utility to a qualified organization is not presumed reasonable. (Id.) AIC witness Kennedy acknowledges that the Company's recent history of actual charitable contributions from 2007-2012 demonstrates no pattern of increasing contributions. (Ameren Ex. 21.0 (Rev.), 12:244-245.) Staff presented AIC's history of actual versus budgeted charitable contributions from 2007-2012 on Staff Ex. 1.0, Attachment 1. AIC's history of charitable contributions indicates that in the six years between 2007 and 2012, AIC actually only contributed the amount of its budgeted contributions in one year, 2008. (Staff Ex. 1.0, 7:128-132; Attachment 1; Staff Ex. 10.0 (Rev.), 9:130-131; Staff Initial Brief Attachment 1) Then, in 2009, the year following the year of increased contributions, AIC lowered its level of actual contributions and in subsequent years continued to lower its actual contribution amounts through 2011. (Staff Ex. 1.0, 7:131-132; Attachment 1; Staff Ex. 10.0 (Rev.), 9-10:135-137; Staff Initial Brief Attachment 1) After three years of declining contributions, the Company increased its contributions in 2012, yet, even considering the increase, AIC did not achieve its budgeted level of contributions. (Staff Ex. 10.0 (Rev.), 9:132-133.)

AIC disagrees with Staff's adjustment, asserting that Section 9-227 of the PUA allows utilities to recover "public welfare" and "charitable" contributions that are "reasonable in amount." (Ameren Ex. 21.0 (Rev.), 4:74-81.) In so doing, however, the Company does not address the requirement that the recoverable amount of charitable contributions must also be found to be reasonable. (Staff Ex. 10.0 (Rev.) 7-8:119-122.) In this case, AIC's projected amount of charitable contributions in the 2014 test year is 41% higher than its actual 2012 contributions. (Id. at 8:122-124.) Due to AIC's recent

history of actual charitable contributions from 2007-2012, that level of increase is unreasonable. (Staff Ex. 1.0 8:128-135.)

The Company posits that the requested 2014 level is reasonable given the current amount AIC is recovering in rates resulting from Docket No. 11-0282 (Ameren Ex. 21.0 (Rev.), 5:93-94.). This argument is not persuasive. As Staff explains, the current amount authorized for recovery is not definitive in the context of this case, and more importantly cannot be a reasonable alternative due to the Company's demonstrated history of contributing lower-than-budgeted amounts in the years 2007, and 2009-2012. (Staff Ex. 10.0 (Rev.) 10:144-151.)

Staff disagrees with AIC's suggestion that its history of contributions prior to 2010 should carry more weight than its more current contributions. (Id. at 10:155-160.) What AIC fails to acknowledge is that prior to and during the transition year of 2010 the Company did not donate both as separate entities and as a single company in the later part of the year. The earlier time period prior to 2010 that AIC states might be more appropriate is actually less determinative of the level of charitable contributions going forward due to the change in operations. (Id.)

The Company suggests an inconsistency in Staff's approach to calculating a reasonable amount of forecasted contributions. (Ameren Exhibit 35.0, at 5:99-100.) Staff agrees that the methodology is different, because the facts in this case do not support using the same methodology as that used in Docket No. 11-0282. Because the facts in this case show that AIC donated more in some prior years does not mean that Staff is ignoring those years. Quite the contrary. For example, AIC posits that the methodology used by Staff and approved by the Commission in Docket No. 11-0282

would have achieved a higher level of contributions than the methodology used by Staff in this proceeding. (Id.) Staff discredited this assertion in testimony, however, pointing out that AIC's suggested methodology would only exacerbate the over-budgeting that AIC has demonstrated in the years 2007 and 2009-2012. (Id. at 11:166-168) Further, Staff reiterates that adjustments to charitable contribution expense presented in a rate case proceeding should be based upon the record evidence in the instant case rather than using those utilized in a prior docket regardless of the specific circumstances that exist for each case. (Staff Ex. 10.0 (Rev.), 11:163-165.) To merely employ a formulaic approach as the Company suggests would improperly limit the Commission to methodologies used in prior cases, regardless of the evidence presented in any case. Further, to employ such a limitation would thwart the Commission's duty to ensure the protection of the public interest. As Staff demonstrated, AIC's notion does not comport with the concept of adhering to the record in each case to determine reasonable levels of expense and basing each adjustment on the specific evidence in that docket. Even considering the Commission decision in Docket No. 11-0282 that approved a higher amount of recovery, however, the Commission should still adopt Staff's adjustment. In that case, the Commission adopted the Staff adjustment to Ameren's estimate stating, in pertinent part:

A 65% increase in recoverable charitable contributions from ratepayers during the current economic climate is untenable. As such, the Commission finds that Staff's proposal to limit recovery of charitable contributions at the Company's 2011 budget plus a 2% increase is more reasonable.

11-0282 Order at 31. This Commission statement indicates that the circumstances of that case were the relevant factors in the Commission's decision, not whether the same or a similar methodology had been utilized in past cases. The Commission did not, as

AIC suggests, establish a rigid methodology for determining all charitable contributions going forward.

Ameren attempts to avoid its record of actual contributions that do not support its current proposal by advocating that the Commission should place more emphasis on AIC's plans for future contributions. (Ameren Ex. 21.0 (Rev.), 9:188-200) Ameren's argument simply accentuates Staff's point that the Company's estimates often exceed actual contributions. (Staff Ex. 10.0 (Rev.), 12:184-185.) This is demonstrated most effectively by AIC's consistent pattern of planning and budgeting for a level of contributions and falling short of actually making the donations as planned. (Staff Ex. 10.0 (Rev.), 12:183-190.) Moreover, AIC further discredits its argument by acknowledging that in response to the Commission's order in Docket No. 11-0282, it reduced its planned level of charitable contributions to the amount allowed as recoverable. (Id. at 12:191-196.) Staff noted that the Company has demonstrated a willingness to reduce its planned charitable contributions when it was apparent that AIC would not fully recover its budgeted level of contributions from ratepayers. (Id. at 12-13:183-206.) In short, to place the greatest emphasis on the Company's plan given AIC's demonstrated pattern of failing to adhere to and willingness to deviate from that plan does not produce a sound or well-founded conclusion.

Staff also recommends removal of the amounts donated to the Greater Missouri Leadership Foundation due to the Commission's recent decisions to not provide recovery to organizations outside of the utility's service territory. (Staff Ex. 10.0 (Rev.), 15:251-284; Staff IB, Appendices A through C.)

For all of the reasons enumerated above, Staff recommends the Commission accept Staff's recommended adjustment to charitable contributions.

7. Forecasted Advertising Expenses

Staff witness Pearce proposed an adjustment to reduce the Company's 2014 forecasted advertising expense in direct testimony (Staff Ex. 4.0R, Schedule 4.02.) This adjustment was revised in Ms. Pearce's supplemental direct testimony (Staff Ex. 9.0, Schedule 9.02) and again in Staff's rebuttal testimony (Staff Ex. 13.0, Schedule 13.02.)

Staff's rebuttal testimony adjustment to reduce the 2014 forecasted advertising expense by \$795,000 (Staff Ex. 13.0, Schedule 13.02) was developed using:

- i) Calculation of a four-year average of actual advertising expenses recorded by Ameren for years 2009 through 2012 (Staff Ex. 4.0, Attachment A, line 9);
- ii) Reduction of Staff's calculated four-year average for amounts paid to Strategic International Group ("SIG") because no written work product was produced during 2012 nor was any value to ratepayers evident from provision of SIG's services rendered during 2012 (Staff Ex. 13.0, Attachment C) that AIC subsequently agreed to remove. (Staff Cross Ex. 1; Tr. 116:12-24, 117:1-21, Aug. 26, 2013.)Y);
- iii) Further reduction of Staff's calculated four-year average for the cost of certain sponsorships net of tangible benefits received (Staff Ex. 9.0, Schedule 9.02 p. 2). Staff found no evidence that these sponsorships were either necessary for the provision of utility service or beneficial to ratepayers (Staff Ex. 13.0, 9:185-191);
- iv) Application to the adjusted average a two percent inflation factor to represent increased costs for each of the years 2013 and 2014 (Staff Ex. 13.0, Schedule 13.02) resulting in Staff's estimate of 2014 advertising expense of \$938,000; and
- v) The Staff estimate of \$938,000 compared to the Company forecasted advertising expenses of \$1,733,000 in surrebuttal testimony (Ameren Ex. 31.0) results in the \$795,000 adjustment.

Staff's adjustment sets forth a reasonable amount for advertising expense. The Company's projected amount of \$1,733,000 is unreasonably high, particularly when

compared with actual spending by the Company in recent years (Staff Ex. 4.0R, 6:127-133, 8:160-173; Staff Ex. 13.0, 9-10:200-225, 11-13:260-289.) Moreover, the Company's advertising budget in any year is variable and discretionary, often fluctuating unpredictably as demonstrated by the dramatic decrease in the fourth quarter 2012 advertising budget. (Staff Exhibit 13.0, 9-10:205-215.) The revised rebuttal testimony of AIC witness Kennedy stated that actual 2012 advertising expenses were lower than budget 'in part because AIC did not execute a media program in the 4th quarter' (Ameren Exhibit 21.0 (Rev.) 25:502-503) because there was (i) a reduction in advertising inventory and higher per-ad costs caused by heavy political advertising in the fall of 2012 and (ii) AIC was in the midst of a selection process for a new ad agency. (Ameren Ex. 21.0 (Rev.) 25:504-508.) AIC witness Kennedy attempts to justify the Company's 2014 increase in advertising by stating that the fourth quarter advertising reduction to its budget was a "prudent decision not to spend dollars during the presidential campaign when broadcast air time was low and more expensive." (Ameren Ex. 35.0, 15:307-310.) This rationale ignores the obvious fact that these events were foreseeable by the Company. Further AIC's argument does not justify AIC's requested increase in its 2014 advertising budget. Conversely, these reductions to previous budgeted amounts due to foreseeable events support Staff's contention that the forecasted advertising expense (Staff Ex. 13.0, 12:275-281) is unnecessarily inflated (Staff Ex. 4.0, 6: 127-133; Staff Ex. 13.0, Attachment D) and highly subject to Company management's discretion. (Ameren Ex. 35.0, 15: 307-310.)

Staff strongly contends that including AIC's unreasonably inflated budgeted advertising expense in utility rates provides no incentive for AIC to control these costs.

To allow the unreasonable budgeted advertising expense in rates would encourage AIC to base its forecast on unreasonably high budgets that are discretionary. More importantly, if AIC were to curtail its future advertising efforts as it just did in 2012 (Staff Ex. 13.0, 9: 204-215) all else being equal, the bottom line would improve to the benefit of AIC and its parent, Ameren Corporation, to the detriment of ratepayers. For all these reasons, Staff strongly urges the Commission to adopt the adjustment on Staff Exhibit 13.0, Schedule 13.02.

8. Sponsorship Expense

9. Credit Card Expenses

Staff witness Pearce proposed to remove from the Company's test year forecast \$12,000 of unnecessary and non-recoverable charges made by Ameren employees using Ameren Company credit cards (formerly referred to as P-cards) (Staff Ex. 9.0, Schedule 9.02; Staff Ex. 13.0, Schedule 13.02). Staff disallowed expenses for employee snacks, meals, parties, decorations and promotional items such as cups, coasters, pens and shirts displaying the company logo. Additionally, Ms. Pearce disallowed charges for certain electronic items including flat screen televisions, digital cameras, cellular phones and accessories, and Blackberry® devices. A complete listing of the disallowed items and their related costs is included with Staff's testimony (Staff Ex. 9.0, Schedule 9.01,, 2; Staff Ex. 13.0, Attachment B, 21-23). In developing the adjustment, Staff considered the following:

- 1) Whether the charge was necessary for the provision of utility service and, thus, a reasonable expense to be recovered from ratepayers;
- 2) Whether the charge provided benefits to ratepayers and not to employees in the form of perquisites for attending a meeting in the course of performing the employee's daily work, recognition of a special occasion, or enhancements to

the work environment that was in addition to the adequate compensation the employees receive for performing their work; and

- 3) Whether the charge would be a usual expense in a for-profit business in which stockholders provide the funding, but not a usual expense that should be funded by ratepayers because ratepayers require the service provided by the Company and have no alternative but to use AIC for delivery of their gas service.

(Staff Ex. 9.0, 4:74-91.) As the Commission explained in Docket No. 12-0293:

To the extent that AIC feels that its current P-Card policies are consistent with general corporate standards, the Commission reminds AIC that such a comparison is not appropriate when the corporate entity in question simply passes purchasing card expenses on to its captive customers. The customers of a typical corporation can choose to spend their money elsewhere if they can find better prices. AIC's customers have no choice but to accept the P-Card purchases in their delivery service rates.

Ameren Illinois Co., ICC Order Docket No. 12-0293, 69 (Dec. 5, 2012).

As noted by Ms. Pearce in Staff Exhibit 13.0, 17:388-396, all costs should be just and reasonable pursuant to Section 9-101 of the Act:

All rates or other charges made, demanded or received by any product or commodity furnished or to be furnished or for any service rendered or to be rendered shall be *just and reasonable*. Every unjust or unreasonable charge made, demanded or received for such product or commodity or service is hereby prohibited and declared unlawful. All rules and regulations made by a public utility affecting or pertaining to its charges to the public shall be just and reasonable.

220 ILCS 5/9-101 (emphasis added). To the extent the contested charges are not just and reasonable for the provision of delivery service in the context of the types of expenses that should be recovered from ratepayers by a regulated monopoly business, those costs fall outside Section 9-101 and should be disallowed.

As indicated on page 23 of Staff Ex. 13.0, Attachment B, most of the disallowed charges fall into the following broad categories:

- Flowers;
- New employee pens, coffee mugs, travel cups, coasters, kudos and gift packets;
- Lunches, cakes, snacks, donuts and decorations for parties, meetings and celebrations;
- Lunch and drinks for attorneys;
- Cell phones, Blackberry devices, DVD players, flat screen televisions, satellite television service, hardware and accessories bought by different individuals at different times at different locations;
- Clothing including t-shirts and hooded sweatshirts with the Ameren Illinois logo; and
- Finance charges for cash advances on the AIC credit card.

The Company has categorized perquisites like pens, cups, coasters, kudos, gift boxes, and clothing to be \$1,964 of the disputed charges and even AIC categorizes these charges as “Employee Benefits”. (Ameren Ex. 28.1.)

The total amount of charges in dispute is based on Staff’s limited sample of four months’ expenses for selected employees who have corporate credit cards with single transaction limits in excess of \$30,000 per month (Ameren Ex. 28.0, 6:113-117). Based on Staff’s limited review, the disputed total equals \$12,807, multiplied by three to annualize the charges disallowed from the review of four month’s expenses. The resulting amount of \$38,422 is allocated between gas and electric service (Staff Ex. 9.0, Schedule 9.01).

During cross-examination by Staff Counsel, AIC witness Ms. Voiles indicated she is the Company’s only witness on this matter (Tr. 59:17-23, Aug. 26, 2013), but she lacked essential knowledge of the Ameren credit card program as revealed by her responses below:

- Ms. Voiles did not respond to Staff's data requests in this proceeding regarding the issue of credit card expenditures (Id. at 60:6-12);
- Approximately 1,500 Ameren Illinois employees currently have Company credit cards, but Ms. Voiles did not know the number of total Ameren Illinois employees or the percentage that have Ameren credit cards (Id. at 61:7-16)-_
- Ms. Voiles did not know how many supervisors or other management employees have authorization to approve charges on those credit cards (Id. at 62:17-22);
- Ms. Voiles is only responsible for approving charges for the seven employees under her supervision—not the remaining employees who hold Ameren credit cards (Id. at 60: 21-24, 62:23-24, 63; 1-7);
- Ms. Voiles indicated that the immediate supervisor for each of the more than 1,500 AIC employees who hold Ameren credit cards is responsible for approving the charges (Id. at 61: 1-6;
- Ms. Voiles is uncertain what the monthly limits are on the credit cards issued to Ameren employees (TR. 8/26, 64: 9-14), however, she agreed that the monthly limit for those employees would be between \$1,000 and \$60,000 per month (Id. at 64: 23-24, 65: 1-2);
- Ms. Voiles has no idea of the amount of total expenses that may be charged by AIC employees using the Ameren credit card during any particular month (Id. at 65: 3-21); and,

Ms. Voiles does not know which accounts in the Uniform System of Accounts are used to record expenditure made with the Ameren credit card (Id. at 66: 4-7).

10. Non-Residential Revenues Adjustment

11. Software Rental Revenues

Staff witness Pearce proposed an adjustment to reflect \$772,000 of rental income for the use of the Enterprise Asset Management System ("EAMS") since the costs of this system are reflected in the revenue requirement, but no offsetting revenues are included.(Staff Ex. 4.0, 4-5:81-96.) AG witness Brosch also proposed an adjustment

to recognize rental revenue (AG/CUB Ex. 5.1, 3), based on a different calculation method.

In rebuttal testimony, Staff revised its adjustment to \$358,000 reflecting the testimony of AIC which noted that the 2014 costs in the instant revenue requirement are less than the 2015 costs. (Staff Ex. 13.0, 5: 100-106.) In surrebuttal testimony, the Company accepted Staff's adjustment (Staff Ex. 13.0, Sch. 13.01) to recognize \$358,000 of revenue from Ameren Missouri (Ameren Exs. 31.1-31.3) but simultaneously sought to increase by \$491,000 project-related operating and maintenance expenses that are unsupported. (Ameren Ex. 31.5.) As a result, this issue consists of two adjustments to the 2014 revenue requirement: (1) recognition of revenue to be received from Ameren Missouri for use of this software and (2) recognition of additional operating and maintenance expenses related to the software that were first proposed by AIC in its surrebuttal testimony. (Ameren Ex. 31.5.) Because the Company accepted Staff's proposed adjustment to reflect \$358,000 of rental revenues, the contested adjustment is limited to the Company's \$491,000 proposal to increase operating and maintenance expense for this project.

The Commission should reject AIC witness Stafford's adjustment to increase the 2014 forecasted cost of EAMS/MWMS by \$491,000 because Mr. Stafford provided no rationale and no calculations to support these additional costs. (Ameren Ex. 31.0; Ameren Ex. 31.5.)

In Mr. Stafford's revised rebuttal testimony (Ameren Ex. 17.0 (Rev.), 26:555-566) he indicated that AIC would not seek recovery of an additional \$491,000 operating and maintenance expense unless the Commission recognizes Mr. Kahle's and Mr. Smith's

“update” to employee benefits expense—an adjustment completely unrelated to the EAMS/MWMS project. The “connection” of Mr. Kahle’s and Mr. Smith’s adjustments to employee benefits expense and Mr. Stafford’s proposal to reflect \$491,000 of additional operating and maintenance expense is merely an attempt by AIC to offset Staff and Intervener reductions to the revenue requirement. In order to make this “connection”, Mr. Stafford attempted to characterize the employee benefits adjustment as an “update”. (Ameren Ex. 17.0, (Rev.), 26:560-566.) In fact, no “update” occurred—Staff and Intervener witnesses simply proposed adjustments to employee benefits expense based on the most recent actuarial valuation that became available after the Company’s filing (Staff Ex. 11.0R, 14-15:280-290). The process of an actual “update” would need to be initiated by the Company and would necessarily entail a fresh look at all the elements of the revenue requirement for the forecasted test year, not one or two expense items. See 83 Ill. Adm. Code 287.30. As a result, if an actual update had occurred, it is likely that while some elements of the test year forecast would increase, others would just as likely decrease. The Company inaccurately claims Mr. Kahle’s adjustment constitutes an “update” that opens the door for a Company update of EAMS/MWMS expenses at the surrebuttal phase of testimony, thus precluding any review of the prudence or reasonableness of the additional expenses. (Ameren Ex. 31.5.)

Based on these facts and circumstances, the Company errs in its attempt to justify an eleventh hour increase to the EAMS/MWMS project by mischaracterizing Staff’s prudent and reasonable adjustment to employee benefits expense as an “update”.

12. Other Operating Revenues¹

The Commission should reject Mr. Effron's proposed adjustment to the Company's 2014 test year sales and operating revenues. Mr. Effron proposed the adjustment because he believes "the reductions to industrial and transportation sales and revenues forecasted by the Company are not taking place." (AG/CUB Ex. 2.0, 14:285-286.)

First, if an adjustment were warranted, the appropriate adjustment would be to the billing determinants used to calculate rates rather than to the revenues to be recovered. (Staff Ex. 15.0, 29:557-559.) An adjustment to the revenues, as Mr. Effron proposes, would not change the total test year revenue requirement to be recovered. (Id. at 29:559-560.) It would merely produce offsetting changes in the amount of test year revenues at present rates and the amount of the increase necessary to produce test year revenues at proposed rates. (Id. at 29:560-562.)

Second, the evidence demonstrates that the adjustment is not necessary. The billing determinants used to set the rates are reflected in AIC's Schedule E-5. (Id. at 30:568-569.) Ms. Althoff provided an analysis which shows that the billing determinants on Schedule E-5 do not reflect the declines in therms sales about which Mr. Effron expressed concerns based on his review of other schedules. (Id. at 30:569-573); AB/CUB Ex. 2.0, 12:246-255; Ameren Ex. 24.0, 4:77-82; Ameren Ex. 24.1.) Ms. Althoff

¹ Staff herein addresses AG/CUB witness Effron's proposed adjustment to the Company's 2014 test year sales and operating revenues. It appears that this issue was inadvertently omitted from the Agreed Upon Briefing Outline circulated among the parties. Staff believes, however, that this is a contested operating revenue issue and has therefore placed it in a new Section III.B.12. To the extent that it may be necessary, Staff hereby requests permission to make these additional comments on this issue as it will help to provide a more complete record for the Commission.

states that AIC's Schedule E-5 test year billing determinants and resulting base rate delivery service revenues are accurate, and she has performed a comparison of total non-residential present rate revenues for the twelve-month period ended April 2013 to test year non-residential present rate revenues. (Ameren Ex. 24.0, 4:77-80.) She asserts that her comparison confirms the accuracy of the forecast and demonstrates that AIC is not under-forecasting present non-residential rate revenues as Mr. Effron suggests. (Id. at 4:80-82). For these reasons, Staff believes that Mr. Effron's adjustment is not necessary.

C. Recommended Operating Income / Revenue Requirement

IV. Cost of Capital and Rate of Return

Staff witness Rochelle M. Phipps recommends a 7.56% overall cost of capital for the Company's gas delivery services, which reflects an 8.81% cost of common equity, as shown below.

Weighted Average Cost of Capital Summary
Staff Proposal
Average 2014

Capital Component	Balance	Weight	Cost	Weighted Cost
Short-Term Debt	\$10,995,015	0.28%	1.27%	0.00%
Long-Term Debt	1,912,158,622	47.85%	6.28%	3.00%
Preferred Stock	58,757,200	1.47%	4.98%	0.07%
Common Equity	2,013,829,819	50.40%	8.81%	4.44%
Credit Facility Fees				0.05%
Total	\$3,995,740,656	100.00%		7.56%

(Staff Ex. 14.0C, Sch. 14.01.)

The overall cost of capital for a public utility equals the sum of the costs of the components of the capital structure (i.e., debt, preferred stock and common equity) after weighting each by its proportion to total capital. (Staff Ex. 5.0R, 3:44-46.) Under the traditional regulatory model, ratepayer and shareholder interests are balanced when the Commission authorizes a rate of return on rate base equal to the public utility's overall cost of capital, as long as that overall cost of capital is not unnecessarily expensive. (Id. at 2:26-29.) In authorizing a rate of return on rate base equal to the overall cost of capital, all costs of service are assumed reasonable and accurately measured, including the costs and balances of the components of the capital structure. (Id. at 2:37-39.) If unreasonable costs continue to be incurred, or if any reasonable cost of service component is measured inaccurately, then the allowed rate of return on rate base will not balance ratepayer and investor interests. (Id. at 2-3:39-42.)

Ms. Phipps recommends an average 2014 capital structure that contains 0.28% short-term debt, 47.85% long-term debt, 1.47% preferred stock and 50.40% common equity. (Id. at 3:54-55.) Ms. Phipps compared AIC's 48.13% average 2014 total debt ratio to the 51.96% average debt to capitalization ratio for the gas sample. (Id. at 12:220-222.) Based on the foregoing, Ms. Phipps concludes the forecasted capital structure of AIC appears to be reasonable in relation to other similar companies. (Id. at 12:222-224.)

A. Resolved Issues

1. Remaining CWIP accruing AFUDC Adjustments

The Commission's formula for calculating short-term debt assumes that any construction work in progress ("CWIP") not funded by short-term debt is funded

proportionately by the remaining sources of capital (i.e., long-term debt, preferred stock and common equity). (Id. at 4:61-66.) Therefore, Ms. Phipps adjusted the monthly short-term debt balances to remove the portion of short-term debt reflected in the calculation of allowance for funds used during construction (“AFUDC”) and allocated \$133,435,088 of remaining CWIP accruing an AFUDC according to the proportion of total long-term capital that each long-term capital component represents. (Staff Ex. 5.0R, 4-5:75-81.) Given long-term debt, preferred stock and common equity compose 47.99%, 1.47% and 50.54% of long-term capital, respectively, Ms. Phipps subtracted 47.99% of \$133,435,088, or \$64,035,498 from the long-term debt balance; 1.47% of \$133,435,088, or \$1,961,496, from the preferred stock balance; and 50.54% of \$133,435,088, or \$67,438,093, from the common equity balance. (Id. at 5:79-87.) The Company does not oppose this adjustment. (Ameren Ex. 19.0, 2:41-43.)

2. Preferred Stock Balance

Staff witness Ms. Phipps recommends an average 2014 preferred stock balance of \$58,757,200, which equals \$60,718,696 of the net proceeds available to the Company, less \$1,961,496 already incorporated in the AFUDC calculation. (Staff Ex. 5.0R, 9:159-164.)

3. Embedded Cost of Preferred Stock

Staff and the Company agree that the Company’s embedded cost of preferred stock is 4.98%. (Staff Ex. 14.0C, Sch. 14.01.)

B. Contested Issues

1. Short-Term Debt Balance

Staff witness Ms. Phipps adjusted the Company's average 2014 short-term debt balance to reflect Staff's proposed rate increase rather than the Company's proposed rate increase. (Staff Ex. 5.0R, 5:90-93.) AIC opposes this adjustment. (Ameren Ex. 19.0, 3:45-57.)

2. Long-Term Debt Balance

Staff witness Ms. Phipps recommends an average 2014 long-term debt balance of \$1,912,158,622, which equals the \$1,976,194,120 carrying value for the Company's long-term debt, less \$64,035,498, which is the amount of long-term debt already incorporated in the AFUDC calculation. (Staff Ex. 5.0R, 9:151-157; Staff Ex. 14.0C, Sch. 14.02.) Staff's long-term debt balance differs from the Company's primarily due to Staff's adjustment to remove a portion of the loss associated with the \$87.1 million 9.75% bonds that AIC redeemed during August 2012, as explained in section IV.B.5 of Staff's IB, Embedded Cost of Long-Term Debt.

3. Common Equity Balance

Staff witness Ms. Phipps made three adjustments to the Company's average 2014 common equity balance, which either were agreed to by the Company or had minor effects on the Company's average 2014 common equity balance.

1. Ms. Phipps subtracted \$67,438,093 from the average 2014 common equity balance to reflect the amount of common equity already incorporated into the AFUDC calculation. (Staff Ex. 5.0R, 11:190-192) As explained previously, the Company does not oppose this adjustment.
2. Ms. Phipps added \$8,203,586 to each month-end balance of common equity, which is the amount by which the actual balance for March 2013 retained

earnings exceeds the projected balance for March 2013 retained earnings.

(Id. at 9-10:171-174.) The Company does not accept this adjustment.

(Ameren Ex. 19.3.)

3. Ms. Phipps adjusted the common equity balance to reflect Staff's recommended rate increase instead of the Company's requested rate increase. (Staff Ex. 5.0R, 11:187-188.) The Company does not accept this adjustment. (Ameren Ex. 19.3.)

Staff's recommended common equity balance differs from the Company's primarily due to Ms. Phipps' fourth adjustment, which removes net income related purchase accounting from the Company's common equity balance. Specifically, in addition to subtracting \$356,284,459 of balance sheet purchase accounting adjustments that are collapsed into ICC Account 114 from the Company's common equity balance (as the Company did in its 2012 Form 21 ILCC Annual Report at page 13), Ms. Phipps also subtracted \$105,536,599 income statement purchase accounting adjustments, which the Company flowed through to retained earnings component of the common equity balance, for a total adjustment of \$461,821,058. (Staff Ex. 5.0R, 10:178-186.)

Ms. Phipps explained that, as a condition of approval in Docket No. 04-0294, the Commission required the Company to reverse the effects of purchase accounting for ratemaking purposes and reflect in Account 114 the impacts of all push down accounting for all Illinois regulatory purposes. (Staff Ex. 5.0R, 10:184-186 and Staff Ex. 14.0C, 10:171-177, citing Illinois Power Company and Ameren Corporation, Order, Docket No. 04-0294, Appendix A, 3 (Sept. 22, 2004)). However, AIC admits that neither AIC (nor Illinois Power) ever reversed the net income-related purchase accounting

adjustments for ratemaking purposes. (Staff Ex. 14.0C, Attach. A.) Furthermore, the Company's Account 114 balance does not include \$105.5 million of net income-related purchase accounting adjustments, which flowed through retained earnings. (Staff Ex. 14.0C, Attach. B.) Thus, net income-related purchase accounting adjustments have not been reversed through the reversal of Account 114's effect on AIC's balance of common equity, contrary to the Commission's directive in Docket No. 04-0294. (Staff Ex. 14.0C, 10:171-183.)

4. Cost of Short-Term Debt, Including Credit Facility Fees

The Company's projected short-term debt balances comprise 100% bank loans, which are made on a 30-day basis. (Staff Ex. 5.0R, 13:227-228.) As such, the interest rate on those bank loans will equal a 30-day LIBOR rate, plus the applicable margin, which varies based on AIC's unsecured credit ratings (or, if no such rating is in effect, such borrower's corporate credit rating or issuer rating) from Moody's Investor Service ("Moody's") and Standard & Poor's ("S&P"). (Id. at 13:229-233.) AIC's current issuer rating from Moody's is Baa2 and its corporate credit rating from S&P is BBB, with a positive outlook. (Id. at 13:233-234.) S&P notes that the placement of AIC's ratings on CreditWatch with positive implications reflects the high probability of a further upgrade following the completion of the merchant sale, which is expected to close in the fourth quarter of 2013. (Id. at 13:234-237.) Thus, S&P has clearly stated that AIC's corporate credit rating absent AIC's affiliation with merchant generation operations would be at least one notch higher, or BBB+. (Id. at 13:237-239.) Consequently, to comply with Section 9-230 of Act, which prohibits including in a utility's allowed rate of return any increased cost of capital which is the direct or indirect result of the public utility's

affiliation with unregulated or non-utility companies, the Commission must calculate the recoverable credit facility interest rate based on at least an S&P credit rating of BBB+. 220 ILCS 5/9-230. According to the terms of the AIC credit facility, with credit ratings of Baa2/BBB+, AIC would be a Level II borrower and pay a short-term borrowing rate that equals the 0.19003% one-month LIBOR rate on July 23, 2013, plus 1.075%, or 1.27%, before bank commitment fees. (Staff Ex. 5.0R, 13-14:239-241; Staff Ex. 14.0C, 2:32-35.)

AIC's credit ratings also directly affect the amount of the annual facility fee associated with AIC's credit facility. (Staff Ex. 5.0R, 14:253-255.) As noted in the previous paragraph, AIC's affiliation with unregulated or non-utility companies has adversely affected its Standard & Poor's credit rating. If not for that affiliation, AIC would be a Level II borrower, and as such, AIC's credit facility fee rate would equal 0.175%. (Id. at 14:-15:258-259.)

Nevertheless, AIC argues, "it is more reasonable to calculate AIC's credit facility fee based on its current credit rating level, as the Company has done, in calculating its overall cost of capital in this proceeding." (Ameren Ex. 19.0, 15:321-323.) Illinois courts have specifically addressed this issue regarding the interpretation of Section 9-230 of the Act. The Appellate Court of Illinois, Second District, in the case of Illinois Bell Telephone Co. v. Illinois Commerce Comm'n, 283 Ill. App. 3d 188, 207 (2d Dist. 1996), held that

In section 9-230, the legislature used the word "any" to modify its prohibition of considering incremental risk or increased cost of capital in determining a reasonable ROR. This usage removes all discretion from the Commission. Section 9-230 does not allow the Commission to consider what portion of a utility's increased risk or cost of capital caused by affiliation is "reasonable" and therefore should be born by the utility's ratepayers; the legislature has

determined that any increase whatsoever must be excluded from the ROR determination. It is impermissible for the Commission to substitute its reasonableness standard for the legislature's absolute standard.

Id., 612, P15-17 (emphasis added.)

As succinctly put by the Court, it is not permissible for the Commission to substitute its reasonableness standard for the legislature's absolute standard. Therefore, as a matter of law, Section 9-230 of the Act limits AIC's recoverable annual facility fee to \$1,400,000. (Id. at 15:259-260.) This adjustment reduces the recoverable bank commitment fee rate to five basis points. (Id. at 15:261-266.)

5. Embedded Cost of Long-Term Debt

Ms. Phipps recommends a 6.28% embedded cost of long-term debt. (Staff Ex. 14.0C, Sch. 14.02.) There are two contested issues relating to the Company's embedded cost of long-term debt: (1) the interest rate for the bonds that AIC expects to issue during December 2013; and (2) the amount of recoverable loss associated with \$87.1 million of 9.75% bonds that the Company redeemed during August 2012.

Interest Rates for AIC's Projected December 2013 Bond Issuances

In rebuttal testimony, Staff withdrew its opposition to the Company's original proposed interest rates of 3.25% and 4.60%, respectively, for the 10-year and 30-year bonds that AIC expects to issue during December 2013. (Staff Ex. 14.0C, 2:24-26 and Sch. 14.02.) Nonetheless, in surrebuttal testimony, AIC moved the goal posts, insisting on interest rates of 3.77% and 4.91%, respectively, for the 10-year and 30-year bonds that AIC expects to issue during December 2013. (Ameren Ex. 33.2.) Staff opposes the Company's revised proposal because it overestimates the current coupon rate for 10-year and 30-year bonds with AIC's senior secured debt ratings of A3/A- from

Moody's/S&P. (Staff Ex. 5.0R, 7:130-132.) As Ms. Phipps explained, AIC's affiliation with merchant generation operations continues to constrain its S&P credit ratings at least one ratings notch. (Id. at 7:135-136.) Further, the most accurate indicator of a future interest rate is the most recent interest rate. (Id. at 7:128-129.) On Monday August 12, 2013, similarly rated 10-year and 30-year utility bonds were issued with interest rates of 3.37% and 4.60%-4.65%, respectively. (Staff Cross Ex. 7.) Thus, the Commission should reject the revised interest rates that AIC presented in surrebuttal testimony and instead adopt the Company's original proposed 3.25% and 4.60% coupon rates, which Staff does not oppose.

Amount of Recoverable Loss Associated with Redemption of 9.75% Bonds

During August 2012, AIC issued \$400 million of 2.7% bonds, \$87.1 million of the proceeds of which were used to redeem the same amount of 9.75% bonds. (Ameren Ex. 4.0, 9:177-184; Staff Ex. 50R, 6-7:118-126.) If all \$400 million of AIC's 9.75% bonds had been found to be prudently issued, the recoverability of the cost of redeeming \$87.1 million of those bonds would not be an issue in this proceeding. However, the Commission previously found that \$50 million of the 9.75% bonds were issued imprudently. Central Illinois Light Co. d/b/a Ameren CILCO, Central Illinois Public Service Co. d/b/a AmerenCIPS, Illinois Power Co. d/b/a AmerenIP, Order, Docket Nos. 09-0306 et al. (Cons.), 143 (April 29, 2010); Ameren Illinois Co., Order, Docket No. 11-0282, 75-76 (Jan. 10, 2012). Thus, in Staff's view, the recoverability of the 9.75% bond redemption costs is directly related to how the proceeds from the 2.7% bonds are assigned. If AIC had chosen to assign \$87.1 million of the 2.7% bond proceeds to the \$350 million of 9.75% bonds that the Commission had found to be

prudently issued, (thereby reducing the outstanding balance of recoverable 9.75% bonds to \$262.9 million) then the entire redemption cost would be recoverable. However, AIC chose to assign \$50 million of the 2.7% bond proceeds to eliminate the \$50 million cost of debt the Commission imputed to neutralize the effect of that imprudently issued debt on AIC's embedded cost of debt. Ameren Illinois Co., Order, Docket No. 11-0282, 75-76 (Jan. 10, 2012). This left only \$32.1 million of 2.7% bond proceeds left to assign to the 9.75% bonds that the Commission found to be recoverable, which reduced the balance of recoverable 9.75% bonds from \$350 million to \$312.9 million. Since the \$50 million of disallowed 9.75% bonds composes 57.41% of the \$87.1 million of 9.75% bonds redeemed, 57.41% of the cost to redeem the 9.75% bonds should be disallowed. (Staff Ex. 5.0R, 7:121-124.) That is, Ameren Illinois' cost to redeem the 9.75% bonds would have been lower had it not issued the \$50 million of 9.75% bonds that the Commission disallowed. (Id. at 6-7:124-126.) The Company should not be allowed to recover redemption costs associated with bonds that the Commission found to be imprudently issued.

6. Cost of Common Equity

Summary of Recommendation

Ms. Phipps' analysis indicates that the cost of common equity for AIC's natural gas distribution operations is 8.81%. (Staff Ex. 14.0C, 2:39-40.) Ms. Phipps measured the investor-required rate of return on common equity for the Company's natural gas distribution operations with discounted cash flow ("DCF") and risk premium analyses. (Id. at 3:44-46.) She applied those models to the same sample of local gas distribution companies utilized by AIC witness Robert Hevert to estimate the cost of equity, with the

exception of the removal of the Laclede Group because its pending acquisition of Missouri Gas Energy (expected to close by September 30, 2013) is likely influencing the Company's market data and its immediate effect on analyst growth expectations is unclear. (Staff Ex. 5.0R, 16-17:293-297; Staff Ex. 14.0C, 3:48-58.) Nonetheless, Ms. Phipps also presented the cost of common equity estimates for the sample including Laclede Group should the Commission decide to retain it in the sample. (Staff Ex. 14.0C, Sch. 14.06, 14.08 and 14.09.)

Discounted Cash Flow Analysis

DCF analysis assumes that the market value of common stock equals the present value of the expected stream of future dividend payments to the holders of that stock. (Staff Ex. 5.0R, 17:306-309.) Since a DCF model incorporates time-sensitive valuation factors, it must correctly reflect the timing of the dividend payments that stock prices embody. (*Id.* at 17-18:313-315.) The companies in the gas sample pay dividends quarterly; therefore, Ms. Phipps applied both constant-growth and non-constant growth quarterly DCF models to measure the annual required rate of return on common equity; although, her recommendation does not incorporate the latter DCF model. (Staff Ex. 5.0R, 18:318-320, 327-332.)

Ms. Phipps measured expected dividend growth using market-consensus expected growth rates published by Zacks Investment Research ("Zacks") and Reuters as of July 23, 2013. (Staff Ex. 5.0R, 19-20:346-349; Staff Ex. 14.0C, 4:71-73 and Sch. 14.03.) Those growth rate estimates were combined with the closing stock prices and dividend data as of July 23, 2013. (Staff Ex. 14.0C, Sch. 14.04.) Based on the growth rate estimates, stock price and dividend data, Ms. Phipps' constant-growth DCF

analysis estimated that the required rate of return on common equity for the gas sample averages 8.60% excluding Laclede Group, and 8.56% including Laclede Group. (Staff Ex. 14.0C, 4:62-64.)

Ms. Phipps initial analysis presented in direct testimony indicated that the 3-5 year growth rates for the gas sample are reasonably sustainable. (Staff Ex. 5.0R, 18:323-324.) Thus, the growth rate estimates for the gas sample do not necessitate the use of a non-constant DCF model. (Id. at 18:326-327.) Nevertheless, she performed a non-constant DCF analysis (“NCD CF”), using the same methodology as Staff employed in the Company’s previous gas rate case, Docket No. 11-0282. (Staff Ex. 5.0R, 18:327-329.)

For the NCD CF analysis, Ms. Phipps modeled three stages of dividend growth. (Staff Ex. 5.0R, 22:396.) The first, a near-term growth stage, is assumed to last five years. (Id. at 22:396-397.) The second stage is a transitional growth period lasting from the end of the fifth year to the end of the tenth year. (Id. at 22:397-399.) Finally, the third, or “steady-state,” growth stage is assumed to begin after the tenth year and continue into perpetuity. (Id. at 22:399-400.) An expected stream of dividends is estimated by applying these stages of growth to the current dividend. (Id. at 22:400-401.) The discount rate that equates the present value of this expected stream of cash flows to the company’s current stock price equals the market-required return on common equity. (Id. at 402-404.)

For the first stage, Ms. Phipps used the average of Zacks and Reuters growth rate estimates, which were also used in her constant growth DCF analysis. (Staff Ex. 5.0R, 22:405-407 and Staff Ex. 14.0C, 4:71-73.) For the second stage Ms. Phipps used

the average of the first- and third-stage growth rates. (Staff Ex. 5.0R, 22:407-410 and Staff Ex. 14.0C, 4:73-75.) Finally, for the third, “steady state,” growth stage, Ms. Phipps calculated the nominal overall economic growth rate beginning in 2023 to estimate the long-term growth expectations of investors. (Staff Ex. 5.0R, 22-23:411-413 and Staff Ex. 14.0C, 4:75-79.) That growth rate was calculated using the expected real growth rate (2.4%) based on the average of the Energy Information Administration (“EIA”) and Global Insight’s forecasts of real gross domestic product (“GDP”), and the expected inflation rate (2.3%) based on the difference in yields on U.S. Treasury bonds and U.S. Treasury Inflation-Protected Securities (“TIPS”). She then combined the resulting 4.8% growth estimate with the 4.3% average nominal economic growth forecasted by EIA and Global Insight. (Staff Ex. 14.0C, Sch. 14.07.)

In her rebuttal testimony, Ms. Phipps updated her NCD CF analysis and concluded that the sustainability of the growth rate for the gas sample was questionable. (Staff Ex. 14.0C, 5:85-94.) Nevertheless, she explained, averaging the results of the NCD CF (8.28%, excluding Laclede Group, and 8.29% including Laclede Group) and the constant DCF (8.60%) would produce a DCF-derived cost of equity estimate of 8.44%. (Id. at 4:79-81 and 5:94-96.) When averaged with her updated risk premium estimate of 9.02%, her cost of equity estimate would fall from 8.81% to 8.73%. (Id. at 5:96-98.) Given this small difference, Ms. Phipps continues to recommend a return on equity for AIC’s gas operations that reflects the average of her constant growth DCF and risk premium analyses (8.81%), which was the basis for her recommendation set forth in her direct testimony. (Id. at 5:98-101.)

Risk Premium Analysis

Ms. Phipps used a one-factor risk premium model, the CAPM, to estimate the cost of equity. The CAPM requires the estimation of three parameters: the risk-free rate of return, the expected rate of return on the market, and beta. (Staff Ex. 5.0R, 25-26:471-481.)

To estimate the risk-free rate, Ms. Phipps examined the suitability of the yields on four-week U.S. Treasury bills and thirty-year U.S. Treasury bonds as estimates of the risk-free rate of return. (Staff Ex. 14.0C, 6:104-106.) She explained that the proxy for the nominal risk-free rate should contain no risk premium and reflect similar inflation and real risk-free rate expectations to the security being analyzed through the risk premium methodology. (Staff Ex. 5.0R, 26:487-489.)

As of July 23, 2013, four-week U.S. Treasury bills were yielding 0.02% and thirty-year U.S. Treasury bonds were currently yielding 3.61%. (Staff Ex. 14.0C, 6:106-108.) Forecasts of long-term inflation and the real risk-free rate imply the long-term risk-free rate is between 4.3% and 4.7%. (Id. at 6:119-122.) Thus, Ms. Phipps concluded the U.S. Treasury bond yield of 3.61% more closely approximates the long-term risk-free rate. (Id. at 6-7:122-125.) She noted, however, that the U.S. Treasury bond yield is an upwardly biased estimator of the long-term risk-free rate due to the inclusion of an interest rate risk premium associated with its relatively long term to maturity. (Staff Ex. 5.0R, 30:554-557.)

The expected rate of return on the market was estimated by conducting a DCF analysis on the firms composing the S&P 500 Index ("S&P 500") as of June 30, 2013. (Staff Ex. 14.0C, 7:127-129.) Firms not paying a dividend as of June 30, 2013, or for which neither Zacks nor Reuters growth rates were available, were eliminated from the

analysis. (Id. at 7:131-133.) That analysis estimated that the expected rate of return on the market equals 12.33%. (Id. at 7:136-138.)

Ms. Phipps used Value Line's betas, Zacks betas, and regression analysis to estimate beta for the gas sample. (Id. at 7:140-141.) She explained that Value Line employs 260 weekly observations of stock price data, and then adjusts its beta. (Staff Ex. 5.0R, 33:597-603.) The regression analysis beta estimate for the gas sample employs sixty monthly observations of stock and the U.S. Treasury bill return data, and then the beta is adjusted. (Id. at 33-34:604-621.) Like Staff's regression beta, Zacks employs 60 monthly observations in its beta estimation; however, the beta estimates Zacks publishes are not adjusted (i.e., raw). (Id. at 34:622-625.) Thus, Ms. Phipps adjusted them using the same formula she used to adjust the regression beta. (Id. at 34:625-626.) Ms. Phipps explained that adjusting raw beta estimates towards the market mean value of 1.0 results in a linear relationship between the beta estimate and realized return that more closely conforms to the CAPM prediction. (Id. at 34:631-633.)

Since both the Zacks beta estimate and the regression beta estimate are calculated using monthly returns rather than weekly returns (as Value Line uses), Ms. Phipps averaged the Zacks and regression betas to avoid over-weighting the monthly return-based betas. (Id. at 35:640-643; Staff Ex. 14.0C, 7:141-143.) Then, she averaged that result with the Value Line beta to obtain a single estimate of beta for the sample. (Staff Ex. 5.0R, 35:643-644; Staff Ex. 14.0C, 7-8:143-144.) For the gas sample, the regression beta estimate is 0.54 and the Value Line beta and Zacks beta average 0.68 and 0.57, respectively. (Staff Ex. 14.0C, 8:144-146.) The average of the Zacks and regression betas is 0.56. (Id. at 8:149.) Averaging this monthly beta with the

weekly Value Line beta (0.68), produces a beta for the gas sample of 0.62. (Id. at 8:149-151.) If Laclede Group is included in the gas sample, the regression beta equals 0.52, the average of the Zacks and regression betas equals 0.54 and the average of the Value Line beta with the monthly beta equals 0.60. (Id. at 8:151-153.)

The risk premium model estimates a required rate of return on common equity of 9.02% for the gas sample, excluding Laclede Group, and 8.84% including Laclede Group. (Staff Ex. 14.0C, 9:156-158.)

Cost of Equity Recommendation

Ms. Phipps estimated the investor-required rate of return on common equity for natural gas distribution operations equals 8.81%, which equals the simple average of the DCF-derived results (8.60%) and risk-premium-derived results (9.02%) for the gas sample. (Id. at 9:166-169.)

To assess the reasonableness of her recommendation, Ms. Phipps considered the observable 4.60% rate of return the market currently requires on less risky A-rated long-term debt. (Staff Ex. 14.0C, 9, n.4.) Ms. Phipps also compared the values for the 3-year average financial guideline ratios computed from 2010 through 2012 for each of the companies in the gas sample and AIC to Moody's guidelines for regulated gas and electric utilities. (Staff Ex. 5.0R, 38:686-688.) To assess the financial strength of gas and electric utilities, Moody's focuses on four ratios: (1) funds from operations ("FFO") to interest coverage; (2) FFO to total debt; (3) retained cash flow ("RCF") to total debt coverage; and (4) debt to capitalization. (Id. at 38:688-691.) Given AIC's 3-year average financial ratios are very close to the gas sample's 3-year average financial

ratios, Ms. Phipps concluded no adjustment to the gas sample's cost of equity is warranted in this case. (Id. at 38-39:692-696.)

Response to the Company:

DCF Analysis - Long-Term Growth Rate Estimate

Mr. Hevert's long-term growth rate of 5.80% is based on the historical growth in real GDP of 3.24% from 1929-2011 and a 2.48% inflation rate that is a compound annual forward rate starting in 2022. (Ameren Ex. 5.0, 19:324-330.) EIA and Global Insight currently forecast real GDP growth will average 2.4% during the 2023-2040 and the 2023-2043 periods, respectively. (Staff Ex. 14.0C, Sch. 14.07.) Ms. Phipps noted that those forecasts are in line with the 2.4%-2.6% annual percentage growth rates published by numerous forecasters for the 2011 – 2040 measurement period. (Staff Ex. 5.0R, 30, n.34.) Thus, these projected growth rates for real GDP from nine sources all indicate that Mr. Hevert's historical real GDP growth estimate overstates the level of growth expected over the long-term and thereby overstates the investor-required rate of return for the companies in his gas sample. (Staff Ex. 14.0C, 22:401-402.)

Importantly, the long-term growth rate that Mr. Hevert used in the final stage of his multi-stage DCF analyses for the gas samples is not sustainable. (Staff Ex. 5.0R, 41:746-747.) Specifically, in order to sustain 5.80% growth given Mr. Hevert's assumed 30.21% retention rate,² the companies in Mr. Hevert's gas sample would have to indefinitely sustain on average a 19.20% return on new common equity investment,³

² The retention rate equals $1 - \text{dividend payout ratio}$; i.e., $1 - 69.79\% = 30.21\%$.

³ $\text{ROE} = \text{growth rate} \div (1 - \text{dividend payout ratio})$, $= 5.80\% \div (1 - 69.79\%) = 19.20\%$.

which is 84.61% higher than Mr. Hevert's 10.40% cost of common equity recommendation for AIC's gas operations. (Id. at 41-42:747-752.) The implausibility of the proxy group sustaining an average 19.20% ROE indefinitely becomes obvious when one considers the ROE for the proxy group averaged 11.07% during 2002 – 2012, with no single company achieving a 19.20% ROE during any single year of that measurement period. (Id. at 42:752-756.) Furthermore, a 19.20% return on retained earnings would greatly exceed Value Line's projected 11.83% ROE for the proxy group. (Id. at 42:756-757.)

Mr. Hevert suggests that Ms. Phipps' analysis of the sustainability of growth rates for the sample companies should not be considered because it is premised on the "b times r" approach, which has been rejected by the Commission. (Ameren Ex. 20.0, 24:388-392.) Ms. Phipps explained that the "b times r" formula is an accurate mathematical expression of the growth in earnings per share as a product of its two components. (Staff Ex. 14.0C, 22:407-409.) Thus, the "b times r" formula provides insight as to what level of growth is sustainable because it can be used to estimate the expected rate of return on new common equity investment necessary to support a given growth rate. (Id. at 22-23:409-412.) Rather, the difficulty in the "b times r" formula lies in obtaining estimates of the investor-expected rate of return on new common equity investment "r." (Id. at 23:413-414.) Since Ms. Phipps did not use the "b times r" formula to directly estimate growth, she did not need an estimate of the investor-expected rate of return on new common equity investment. (Id. at 23:414-417.)

Mr. Hevert claims that projections of the 30-year Treasury yield do not support Ms. Phipps' 4.6% long-term growth rate. (Ameren Ex. 20.0, 22:362:364.) *The Blue*

Chip Financial Forecast (“*Blue Chip*”), upon which Mr. Hevert relied to make his argument, projected growth of 2.5% for real GDP and 2.2% for inflation, as measured by the GDP price index for the 2020-2024 period. (Staff Ex. 14.0C, 22:391-393.) Hence, these projections indicate a long-term growth projection for nominal GDP of 4.8%, which supports Staff’s long-term growth estimate. (*Id.* at 22:393-395.) Instead of comparing Staff’s long-term growth rate to *Blue Chip*’s GDP growth projections, Mr. Hevert compares it to the higher 30-year Treasury yield as of 2023. (*Id.* at 22:395-397.) Mr. Hevert’s argument is based on the false premise that Ms. Phipps suggests the 30-year U.S. Treasury yield is an appropriate measure of the long-term nominal GDP growth rate, which is a mischaracterization of Ms. Phipps’ testimony.⁴ (Ameren Ex. 2.0., 22:356-358.) Furthermore, it is nonsensical to use a proxy for forecasted nominal GDP growth when the same source actually provides a nominal GDP growth forecast directly. (*Staff Ex. 14.0C*, 22:397-399.) In addition, U.S. Treasury bond yields should be higher than GDP growth because U.S. Treasury bonds contain an interest rate risk premium. (*Id.* at 22:399-401) Therefore, the forecast that Mr. Hevert relies upon indicates that his long-term growth rate estimates are overstated. (*Id.* at 22:401-402.) Thus, the Commission should continue to rely on current, observable market interest rates rather than projected rates. Central Illinois Light Co. d/b/a Ameren CILCO, Central Illinois Public Service Co. d/b/a AmerenCIPS, Illinois Power Co. d/b/a AmerenIP, Order, Docket Nos. 09-0306 et al. (Cons.), 214 (April 29, 2010); Illinois-American Water Co.,

⁴ Although Ms. Phipps observed that the nominal long-term GDP growth and the nominal long-term risk-free rate should equal over time, she also testified that U.S. Treasury bond yields include a risk premium for interest rate risk and, as a consequence, are upwardly biased estimators of the long-term nominal risk-free rate. (Staff Ex. 5.0R, 26:487-489 and 30:550-557.)

Order, Docket No. 09-0319, 112 (April 13, 2010); Illinois-American Water Co., Order, Docket No. 11-0767, 108-109 (Sept. 19, 2012).

Risk Premium Analysis - Risk-Free Rate

Staff opposes the forecasted and 30-day average U.S. Treasury bond yields that Mr. Hevert uses as proxies for the risk-free rate. (Ameren Ex. 20.4; Staff Ex. 14.0C, 24:446-450.) Ms. Phipps explained that interest rates are constantly adjusting, and accurately forecasting the movements of interest rates is problematic. (Staff Ex. 14.0C, 24:450-451.) In contrast, current U.S. Treasury yields, which Staff used as proxies for the risk-free rate, reflect all relevant, available information, including investor expectations regarding future interest rates. (Staff Ex. 14.0C, 24:451-453.) Consequently, investor appraisals of the value of forecasts are also reflected in current interest rates. (Id. at 24:454-455.) Therefore, if investors believe that the forecasts are valuable (or likewise, not valuable), that belief would be reflected in current market interest rates. (Id. at 24-25:455-458.) In summary, if one uses current market interest rates in a risk premium analysis, speculation of whether investor expectations of future interest rates equals those from a particular forecast reporting service is unnecessary. (Id. at 25:458-461.) Further, it is important to note that U.S. Treasury bond yields reflect market forces, while forecasts do not. (Id. at 25:461-462.) The true risk-free rate is reflected in the return investors are willing to accept in the market. (Id. at 25:462-463.) As of July 23, 2013, investors were willing to accept 3.61% return on U.S. Treasury bonds, which includes an interest rate risk premium associated with its relatively long term to maturity. (Id. at 25:463-466.)

Risk Premium Analysis - Beta

Staff identified two problems with the beta estimates that Mr. Hevert uses in his CAPM analyses. First, Mr. Hevert relies on beta estimates that are measured over eighteen to twenty-four months. (Staff Ex. 5.0R, 43:765-767.) Betas measured over shorter time periods are more prone to measurement error arising from short-term changes in risk and investor risk preferences, which can bias the beta estimate. (Id. at 43:770-772.) A *decrease* in a company's systematic risk could *increase* its estimated beta even though generally an increasing beta would be interpreted as signaling an *increase* in a company's systematic risk. (Id. at 43:772-775.) Conversely, an *increase* in a company's systematic risk could *lower* its calculated beta even though generally a decreasing beta would be interpreted as signaling a *decrease* in a company's systematic risk. (Id. at 43:775-777.) Those counter-intuitive results are a consequence of the inverse relationship between risk and stock values. (Id. at 43:778-779.) As the risk of a stock declines, its price rises, all else equal. (Id. at 43:779-780.) In a rising stock market, the beta calculated will rise for a stock that is declining in risk, all else equal. (Id. at 43:780-781.) Conversely, in a declining market, the beta calculated will decline for a stock that is increasing in risk. (Id. at 43:781-782.) Consequently, a longer measurement period should be used as a more complete business cycle will include both rising and falling markets, reducing measurement error. (Id. at 43:782-784.) Ms. Phipps calculated beta using only eighteen months of data for three consecutive measurement periods to demonstrate the inherent volatility in using such a short measurement period to measure beta. (Id. at 44:785-792.)

Second, Mr. Hevert's risk premium analysis is flawed because he relies exclusively on betas calculated using weekly return intervals, despite evidence that the

major reason for observed variation among published betas is the interval effect (i.e. monthly returns versus weekly returns) due to non-synchronous trading, which is greater for weekly data than with monthly data. (Staff Ex. 5.0R, 44-45:794-798.) By relying exclusively upon betas calculated using weekly data, Mr. Hevert has introduced bias into his CAPM analysis that could have been mitigated by including a beta estimate derived from monthly return intervals. (Id. at 45:798-801.)

In addition, Mr. Hevert opposes Ms. Phipps' use of five-year beta estimates because it "includes the period of the 2008-2009 credit crisis and financial market dislocation." (Ameren Ex. 20.0, 30:486-491.) Yet, Ibbotson Associates explains, in pertinent part:

Ideally, a beta should be measured over the longest time period possible. With a large number of data points, the statistical precision of the regression equation should be high... The amount of history included in beta calculations done by commercial beta services is fairly consistent at five years. Using five years of data is a rather arbitrary decision that attempts to use as much data as possible without including irrelevant historical data. Using five years of data would ideally cover a number of different economic scenarios such as expansion and contraction in the economy.

(Staff Ex. 14.0C, 25-26:475-483.)

Thus, what Mr. Hevert incorrectly identifies as a weakness in longer measurement periods for beta is actually a strength.

Risk Premium Analysis - Market Risk Premium

Mr. Hevert developed two estimates of the market risk premium by calculating the required return on the S&P 500 Index using data from Bloomberg and Capital IQ. (Ameren Ex. 5.0, 23-24:402-412.) He used a constant growth DCF on all of the companies in the index with long-term growth projections available, including non-

dividend paying companies. (Staff Ex. 5.0R, 45:805-806.) Staff witness Phipps explained that Mr. Hevert's inclusion of the non-dividend paying companies in a constant growth DCF analysis upwardly biases his estimate of market return. (Id. at 45:811-813.) That is, the dividend growth rate of non-dividend paying companies cannot be both constant and equal to the earnings growth rate as Mr. Hevert's estimation process assumes. (Id. at 45:807-809.) If the dividend growth rate is constant, it must remain 0%. (Id. at 45:809-810.) In contrast, the average dividend growth rates of the non-dividend paying companies in Mr. Hevert's analyses equal approximately 14%. (Id. at 45:810-811.)

Furthermore, Mr. Hevert's market risk premium calculation using all 1,677 companies in the Value Line universe is an inappropriate "check of reasonableness" of his Bloomberg-derived market risk premium because it suffers from the same deficiency – i.e., he includes non-dividend paying companies in the Value Line market risk premium calculation. (Staff Ex. 14.0C, 30:545-551.) Staff witness Phipps noted that another "check of reasonableness" that avoids those problems would be a published source, such as Duff and Phelps, which currently estimates a 9.0% required rate of return on the market (i.e., 4% risk-free rate, plus 5% market risk premium). (Staff Ex. 14.0C, 30:553-558.) Duff and Phelps' 9.0% market return estimate is far below the required rate of return on the market that Mr. Hevert estimates for the Value Line universe (i.e., 13.48%) and using Bloomberg data (i.e., 13.56%). (Id. at 30:558-561.)

Bond Yield Plus Risk Premium

Mr. Hevert's bond yield plus risk premium analysis suffers from the same infirmities as the risk premium model that the Commission rejected in the Company's

most recent gas rate case, Docket No. 11-0282. (Staff Ex. 5.0R, 46:820-822.) In that case, the Commission questioned the validity of the bond yield plus risk premium approach given its reliance on utility authorized returns on equity throughout the U.S. Ameren Illinois Co., Order, Docket No. 11-0282, 125 (Jan. 10, 2012).

Staff witness Phipps noted that Mr. Hevert's model, estimated over the period 1980-2012, nonsensically predicts that when the U.S. Treasury bond yield falls to 2.92% or below (which occurred 150 business days during 2012), the cost of common equity for utilities will rise. (Staff Ex. 5.0R, 46-47:831-835.) In rebuttal testimony, Mr. Hevert presented alternative bond yield plus risk premium analyses (both a linear and a non-linear model), which employ a shorter measurement period (2011 to the present) and include credit spreads as an additional independent variable. (Ameren Ex. 20.0, 33-34:553-574.) However, the alternative models are no better than Mr. Hevert's original analysis. Mr. Hevert's linear model predicts the cost of equity is inversely related to the 30-year U.S. Treasury bond yield and the non-linear model predicts a similar, negative relationship when the U.S. Treasury bond yield is 3.58% or lower (vs. a 2.92% inflection point in his original analysis). (Staff Ex. 14.0C, 31:568-572.) This is not consistent with the positive relationship that one would reasonably expect to exist between the cost of equity and U.S. Treasury bond yields – i.e., the cost of equity would increase as the 30-year Treasury bond yield increases. (Id. at 31:572-575.)

Moreover, Mr. Hevert's linear model suggests that risk premiums implied in authorized rates of return move in an equal and opposite direction of U.S. Treasury bond yields, as indicated by a coefficient that is very close to negative one. (Id. at 31:576-579.) Since the implied risk premium is calculated as the difference between

authorized rate of return on common equity and the yield on 30-year U.S. Treasury bonds, a coefficient of negative one indicates that 30-year U.S. Treasury bond yields have no power to predict authorized rate of return on common equity. Ms. Phipps investigated this and found that U.S. Treasury bond yields explain less than 3% of the variation in authorized rates of return on common equity, (i.e., the R^2 from regressing authorized rates of return against 30-year U.S. Treasury bond yields alone and in combination with credit spreads is less than 0.03). (Id. at 31-32:581-583.) Further, the t-statistics indicate that there is no statistically significant relationship between 30-year U.S. Treasury bond yields (or credit spreads) and authorized rates of return on common equity. (Id. at 32:583-585.)

In summary, the counter-intuitive relationship between bond yields and implied risk premiums and the statistically insignificant relationship between U.S. Treasury bond yields and authorized rates of return on common equity all indicate that Mr. Hevert's risk premium model is not useful for checking, let alone estimating, the cost of common equity for gas utilities. (Staff Ex. 14.0C, 32:586-590.)

Flotation Cost Adjustment

The flotation cost adjustment proposed by Mr. Hevert is contrary to long-standing Commission practice. (Staff Ex. 5.0R, 47:844-848.) The Commission Order from Docket No. 94-0065 states, "The Commission has traditionally approved [flotation cost] adjustments only when the utility anticipates it will issue stock in the test year or when it has been demonstrated that costs incurred prior to the test year have not been recovered previously through rates." Commonwealth Edison Co., ICC Order Docket No. 94-0065, 93-94 (Jan. 9, 1995). Moreover, that Order states, "[the utility] has the

burden of proof on this issue.” Thus, the Commission should allow recovery of flotation costs only if a utility can verify both that it incurred the specific amount of flotation costs for which it seeks compensation and it has not previously recovered those costs through rates. (Staff Ex. 5.0R, 48:854-858.) The Company has done neither.

Ms. Hevert’s flotation cost calculations were based on the costs of issuing equity that were incurred by Ameren Corp. and his sample group companies in their two most recent common equity issuances. (Id. at 47:837-839; Ameren Ex. 5.0, 39:701-703.) Based on those issuance costs, he calculated a flotation cost of 0.14% (14 basis points) for the gas distribution operations. (Staff Ex. 5.0R, 47:839-841; Ameren Ex. 5.0, 39:703-704.) He did not make a specific flotation cost adjustment, but claims to have considered the effect of flotation costs in determining where AIC’s ROE falls within the range of results. (Staff Ex. 5.0R, 47:841-843; Ameren Ex. 5.0, 39:705-708.) Thus, the size of the flotation cost in Mr. Hevert’s rate of return on common equity remains a mystery.

The Commission has repeatedly rejected generalized flotation cost adjustments as an inappropriate basis for raising utility rates. MidAmerican Energy Co., Order, Docket No. 01-0696, 23-24 (Sept. 11, 2002); Central Illinois Public Service Co. (AmerenCIPS) and Union Electric Co. (AmerenUE), Order, Docket Nos. 02-0798/03-0008/03-0009 (Cons.), 83, 89 (Oct. 22, 2003); Central Illinois Light Co., Order, Docket Nos. 01-0465/01-0530/01-0637 (Cons.), 75, 79 (March 28, 2002); Northern Illinois Gas Co. d/b/a Nicor Gas Co., Order, Docket No. 04-0779, 92-94 (Sept. 20, 2005); North Shore Gas Co. and The Peoples Gas Light and Coke Co., Order, Docket Nos. 07-0241/07-0242, 102 (Feb. 5, 2008); Ameren Illinois Co., Docket No. 11-0282, 126 (Jan.

10, 2012). Since Mr. Hevert's calculation is not based on issuance costs that the Company has incurred but has not previously recovered through rates, it should not be considered in setting the investor-required rate of return on common equity. (Staff Ex. 5.0R, 47:845-848.)

C. Recommended Overall Rate of Return

Staff witness Rochelle M. Phipps recommends a 7.56% overall cost of capital for the Company's gas delivery services, which reflects an 8.81% cost of common equity, as shown below.

Weighted Average Cost of Capital Summary
Staff Proposal
Average 2014

Capital Component	Balance	Weight	Cost	Weighted Cost
Short-Term Debt	\$10,995,015	0.28%	1.27%	0.00%
Long-Term Debt	1,912,158,622	47.85%	6.28%	3.00%
Preferred Stock	58,757,200	1.47%	4.98%	0.07%
Common Equity	2,013,829,819	50.40%	8.81%	4.44%
Credit Facility Fees				0.05%
Total	\$3,995,740,656	100.00%		7.56%

(Staff Ex. 14.0C, Sch. 14.01.)

V. Cost of Service

A. Resolved Issues

B. Contested Issues

1. Cost of Service Study

i. T&D Main Allocation Methodology

Staff does not object to AIC's position on this issue.

IIEC's proposal to use a design day demand methodology to allocate the costs of Transmission and Distribution ("T&D") mains (IIEC Ex. 2.0, 7:21-22) is flawed and should be rejected by the Commission. IIEC witness Brian Collins argues that the Company's use of the peak and average method to allocate T&D mains is inappropriate for ratemaking in this proceeding because the method does not appropriately reflect how the costs associated with the T&D mains are incurred by the Company. (IIEC Ex. 4.0, 2:22-25.)

The Commission should reject IIEC witness Collins' arguments. The peak and average method is appropriate as it recognizes two key factors drive investment in transmission and distribution plant. First is the need to meet peak demands, not just for individual classes, but, for the system as a whole. (Staff Ex. 15.0, 21:381-382.) This is why coincident peak demands are used as one component of the allocator. (Id. at 21:382-383.) Second, the allocator recognizes the role of year-round demands in shaping transmission and distribution investments through the average demand component. (Id. at 21:383-385.) The investments associated with a distribution system cannot be justified solely by demands on a peak day; rather, they are dictated by year-round demands by all ratepayers. (Id. at 21:385-388.) The Company's proposal to allocate T&D mains using the peak and average method is appropriate for use in this proceeding and should be approved by the Commission. (Id. at 21:388-389.)

Contrary to Mr. Collins' assertion, using the peak and average demand method is consistent with general practice in Illinois. (Staff Ex. 15.0, 19-20:348-366.) AIC has allocated T&D Mains in this proceeding and several prior proceedings using the Peak and Average allocation method. (Id.) The Commission has an established pattern of

approving the peak and average method to allocate the costs associated with T&D mains. (Id.) For example, most recently in Docket Nos. 12-0511/12-0512 (Cons.), the Commission approved the use of North Shore Gas Company's and Peoples Gas Light and Coke Company's (together "NS & PGL") Cost of Service ("COS") studies which used a volumetric and demand allocator on all T&D sub-accounts. North Shore Gas Co. & Peoples Gas Light and Coke Co., ICC Order Docket Nos. 12-0511/12-0512 (Cons.), 210-211 (June 18, 2013). NS & PGL's COS studies both used a volumetric and demand allocator on all T&D sub-accounts. (Staff Ex. 15.0, 19:355-357.) Likewise, the most recent Ameren gas rate case (Docket No. 11-0282) used the same allocation methods that are used here, while the most recent Northern Illinois Gas Company case (Docket No. 08-0363) also used a volumetric allocator for most subaccounts. (Id. at 20:358-361.) None of these allocation methods have been challenged in these previous cases and were adopted by the Commission in those dockets for the purpose of setting rates. (Id. at 20:361-366.)

In fact, when asked if he was aware of any case, order or proceeding where the Commission has ruled to reject the T&D main allocation factor that the Company has proposed in this case, Mr. Collins replied that he was unaware of any such circumstances. (Id. at 20:373-377.) Mr. Collins also replied that he was unaware of any circumstance where the Commission has approved his proposed allocation method for T&D mains. (Staff Ex. 15.0, 20-21:373-379.)

ii. Low Pressure Distribution System

The Commission should reject IIEC witness Collins' recommendation that a portion (40%) of the low pressure distribution main costs be allocated on a customer

component. (IIEC Ex. 2.0, 9:200-207.) Mr. Collins argues that the Company's COS study over-allocates costs to large customers because the COS study does not first classify a portion of low pressure T&D mains on a customer component and then allocate the remaining costs on both customer and demand components. (Id. at 8:170, 9:199.)

Mr. Collins references the National Association of Regulatory Utility Commissioners manual that he asserts recognizes that costs associated with the minimum sized distribution main are customer related. (Id. at 8:177-184.) However, as Staff witness Boggs explained, Mr. Collins' hypothetical minimum sized distribution main, which he identifies as a customer component, is part of a distribution system that is clearly related to customer demands. (Staff Ex. 15.0, 22:405-408.) Mr. Collins' argument is akin to saying that costs associated with traditional customer-related components of the system (e.g., services and meters) should be considered demand-related because a large industrial customer would require a more costly service line and meter than a smaller customer. (Id. at 22:408-412.) This argument is flawed. The costs of that service line and meter are properly considered customer-related because their primary purpose is to serve the individual customer. (Id. at 22:412-414.) Similarly, the distribution system has the primary purpose of meeting all ratepayer demands and is appropriately considered demand-related. (Id. at 22:415-416.)

The Commission has consistently rejected this minimum sized distribution method in prior dockets. Ameren Illinois Company, ICC Order Docket Nos. 07-0585, 280 (Sept. 24, 2008.); Northern Illinois Gas Company, ICC Order Docket No. 08-0363, 77 (March 25, 2009.); Central Illinois Public Service Company (AmerenCIPS) and Union

Electric Company (AmerenUE), ICC Order Docket No. 00-0802, 41-43 (December 11, 2001.); MidAmerican Energy Company, ICC Order Docket No. 01-0444, 19 (March 27, 2002.); Northern Illinois Gas Company, ICC Docket No. 88-0277, 298-299 (June 21, 1989.) Previously, the Commission rejected IIEC's proposal for the Company to provide a COS study that uses the minimum sized distribution method when allocating a portion of low pressure T&D mains on a customer component. Central Illinois Light Co., ICC Order Docket Nos. 06-0070 et al. (Cons.), 161 (Nov. 21, 2006). Likewise, the Commission should reject IIEC's proposal to use a minimum sized distribution method when allocating a portion of low pressure T&D mains on a customer component in the current proceeding as well.

VI. Revenue Allocation

A. Resolved Issues

B. Contested Issues

AG/CUB witness Rubin recommends that the revenue constraint of 1.5 times the average percentage increase should be applied (AG/CUB Ex. 3.0, 5-6:110-117), except where doing so over a series of five cases (approximately ten years) would not result in a customer class paying rates that approximate its cost of service (Id. at 6:124-131). Where that condition would not be met, Mr. Rubin recommends either (a) increasing rates so that cost-based rates would be achieved through approximately equal percentage increases over a span of five rate cases, or (b) changing the make-up of the customer class so that its cost characteristics are substantially modified. (Id. at 5-6:97-131)

The Commission should not accept Mr. Rubin's recommendation at this time. Instead, the Commission should accept Ameren's proposed revenue allocation approach that constrains movement to full class cost of service for any one class to 1.5 times the overall average rate increase so as not to create adverse bill impacts. (Ameren Ex. 9.0, 21:444-453) This methodology mitigates the concern of adopting the full COS results and the prospect of unfavorable rate impacts that could otherwise result for some rate classes. (Staff Ex. 6.0, 31:563-565.) The amount of revenue requirement which is unrecovered, because the rate increase would exceed the cap, would be allocated to the other rate classes, i.e., recovered from the rate classes that have not reached the cap. (Id. at 31:565-568)

The 1.5 times the system average increase constraint represents a reasoned judgment of how much progress can be made towards cost-based revenue allocations while addressing bill impact concerns. (Id. at 31:569-571) This methodology would follow the decision in Ameren's last rate case, docket no. 11-0282, where the Commission approved a rate cap mechanism that limited class increases to 1.5 times the overall average increase allocated to the respective Rate Zone. Ameren Illinois Co., ICC Order Docket Nos. 11-0282 et al (Cons.), 135 (Jan. 10, 2012) ("11-0282 Order"). Additionally, no parties raised concerns about the issue in Ameren's last rate proceeding. (Id. at 31:574.)

That said Mr. Rubin raises a legitimate point, which is that the movement toward full cost of service recovery should eventually achieve full cost of service recovery. (Staff Ex. 15.0, 11:191-193.) Therefore, while Staff recommends that the Commission continue with the 1.5 times the system average increase constraint in this case, Staff

also recommends that the Commission evaluate the progress of each customer class toward full cost of service recovery in future rate cases and make any changes it deems appropriate at that time. (Id. at 11:193-196.)

VII. Rate Design

Staff does not object to the Company's proposals to consolidate certain of the rates among the Rate Zones. The Commission's Order in Docket No. 10-0517 states: "[t]he Commission supports AIC's goal of single-tariff pricing, but any movement toward this goal must also consider the Commission's efforts to foster cost-based rates. Ameren Illinois Company, ICC Order Docket No. 10-0517, 20 (March 15, 2011).

The Commission's Order in Docket No. 10-0517 further states:

The Commission does not mean to suggest that AIC must wait until such costs are equal among all three rate zones before the consolidation...The Commission can envision a point in the future where the costs of serving customers of two of the legacy utilities...may be considered 'close enough,' all things considered, and ready for consolidation.'

(Id. at 20-21.) Company witness Mr. Leonard Jones then indicates that the costs between some of the rate classes in the Rate Zones are indeed close and in his view are "close enough" to justify uniformity in rate design. (AIC Ex. 8.0, 8:170-175.)

Taking into consideration the Commission's support in Docket No. 10-0517 of AIC's goal of single tariff pricing and the proximity of the costs of serving customers of two of the legacy utilities, Staff supports the following proposals raised by Ameren witness Ms. Karen Althoff:

1. Uniform Customer and Usage Charges for GDS-1 customers in Rate Zones I and III. (Ameren Ex. 9.0, 24:512-520.)

2. Uniform Customer and Usage Charges for GDS-2 customers in Rate Zones I and II. (Id. at 25:523-532.)
3. Uniform Customer Charges for GDS-3 customers in Rate Zones I and II. (Id. at 25:533-545.)

Ultimately, Staff believes that the Company's rate design proposals, which conform the GDS-1 Customer Charge rate structure and Usage Charge rate structure for Rate Zone III to that of Rate Zone I; conform the GDS-2 Customer Charge rate structure and Usage Charge rate structure for Rate Zone I with that of Rate Zone II; and uniform Customer Charges for the GDS-3 customer class in Rate Zones I and II are in the best interest of its customers and therefore, Staff does not object to implementation of the Company's proposals. (Staff Ex. 6.0, 36:668-683, 37:693-708, 39-40:736-752.)

A. Resolved Issues

1. SFV Cost Recovery

Company witness Leonard M. Jones' initial proposal was to increase the percentage of fixed costs through fixed charges in its Straight Fixed Variable ("SFV") rate design. (Ameren Ex. 8.0, 3:63-64) Mr. Jones' proposal allowed for the Company to increase the percentage of its revenue requirement recovered through the Customer Charge for GDS-1 and GDS-2 customers from 80% to 85%. (Id. at 4: 65-77.) Staff disagreed with Mr. Jones' proposal, and advocated that the fixed cost recovery for GDS-1 and GDS-2 customers through the monthly Customer Charge remain at the current level of 80%. (Staff Ex. 15.0, 9:151-156.)

In his surrebuttal testimony, Mr. Jones yielded his position and indicated that "[F]or purposes of this case, and this case only, the Company is willing to agree to Staff's

position and will not continue to request that the amount of fixed costs recovered through the Customer Charge be increased to 85%.” (Ameren Ex. 37.0, 2:34-36.)

2. GDS-5 Rate Availability

The Company has provided an evaluation of the experimental expansion of the GDS-5 tariff ordered by the Commission in Docket No. 11-0282 whereby certain GDS-3 customers would take service under the GDS-5 rate. (Ameren Ex. 9.12.) In the 11-0282 Order, the Commission stated the following regarding the GDS-5 tariff:

Because the Commission is authorizing this tariff expansion on a limited, experimental basis, the Commission believes that to continue this process, and in order to contemplate continuation of the tariff or further expansion, evidence must be presented in AIC's next rate case that demonstrates that the expanded tariff: improves system costs savings and reliability by having more GDS-5 customers interrupt when the temperature is 25 degrees or less; minimizes revenue erosion; and properly assesses the costs associated with metering and other equipment for GDS-3 customers taking service under the GDS-5 rate.

11-0282 Order at 151-152 (emphasis added).

The Commission should eliminate the experimental Customer Charge by rate zone. Ameren’s detailed evaluation of the GDS-5 Experimental Tariff Expansion, provided in Ameren Ex. 9.12 demonstrates that the experimental tariff expansion program meets only one of the three criteria the Commission identified in the 11-0282 Order as necessary to justify the expansion or extension of the program. (Staff Ex. 6.0, 52:979-981; Staff Ex. 15.0, 13:226-229.) Extending or expanding the program could lead to an inequitable assignment of costs among customer classes. (Staff Ex. 6.0, 52:979-983; Staff Ex. 15.0, 13:229-231.) Therefore, Staff recommends that the experimental tariff expansion program for GDS-5 customers be terminated because it

does not meet all of the three criteria the Commission laid out to justify expansion or extension of the experiment. (Staff Ex. 15.0, 13:231-234.)

The only other parties to this proceeding that addressed this issue were Ameren and AG/CUB, both of whom recommended that the GDS-5 experiment be eliminated. (Ameren Ex. 9.0, 29-32:630-686; AG/CUB Ex. 3.0, 9-10:174-199; Staff Ex. 6.0, 55-56:1031-1045.)

B. Contested Issues

1. GDS 1 Increase

The Commission should reject AG/CUB witness Rubin's proposal that, for purposes of setting rates in this proceeding, there should be no change in Ameren's existing customer charges for GDS-1 in any Rate Zone, other than a minor increase or decrease that may be necessary to consolidate the rates for Rate Zone I and Rate Zone III. (AG/CUB Ex. 3.0. 29:554-559)

Mr. Rubin's proposal would assign the entire increase allocable to residential customers to the per therm distribution charge. (AG/CUB Ex. 3.0, 29:554-559.) The evidence indicates that, for GDS-1, there should be increases to both Customer Charges and Distribution Charges in both Rate Zone I and Rate Zone III. (Staff Ex. 6.0, 36-37:668-683; Staff Ex. 15.0, 17-18:315-317.) Staff's proposal would allow for consolidation of the rates for the two zones. (Staff Ex. 15.0, 18:317-318.) It would also allow for an increase that is below the proposed overall Company average increase and that is distributed more evenly between the Customer Charge and Distribution charge than is Mr. Rubin's proposal. (Id. at 18:318-321.) Staff's proposed rate design would

mitigate some of the subsidies that the GDS-1 class provides to other classes by virtue of the below average increases proposed for the GDS-1 class. (Id. at 18:326-328.)

2. Heating vs. Non-Heating Customer Study

Staff recommends the Commission reject AG/CUB witness Rubin's proposal to require the Company to present a COS study in its next rate case that determines the cost to serve non-heating customers separately from the cost to serve heating customers. (AG/CUB Ex. 3.0, 28:545-551; Staff Ex. 15.0, 15:271.) However, Staff does recommend that the Commission direct the Company to present information and data with the initial filing of its next gas rate case that would assist in determining the costs and benefits if GDS-1 customers were bifurcated into distinct heating and non-heating classes. (Staff Ex. 15.0, 16:287-290.)

In his direct Testimony, AG/CUB witness Mr. Scott Rubin criticizes Ameren's proposed rate design arguing that the Company's proposed rate design would shift the responsibility for providing revenues from higher-use customers to lower-use customers, particularly non-heating customers. (AG/CUB Ex. 3.0, 20:385-386.)

In addition, Mr. Rubin recommends that the Commission require Ameren to separate its residential class into heating and non-heating classes and that Ameren should be required to prepare a COS study in its next rate case that determines the cost to serve non-heating customers separately from the cost to serve heating customers. (AG/CUB Ex. 3.0, 28:547-551.) Mr. Rubin further recommends that the entire rate increase allocable to Residential Customers (if any) be recovered through increases in the per-therm distribution (Usage) charge. (Id., 28-29:554-559.)

Mr. Rubin's proposal should be rejected in this rate case because Ameren currently does not have a method that would allow it to divide the GDS-1 Heating and Non-Heating customers into separate classes. (Staff Ex. 15.0, 15:271-272.) It also does not have a billing system that distinguishes between different categories of customers; however, Ameren indicates that its billing system could be modified to make that distinction. (Id. at 15:273-275.) Staff believes that criteria and usage thresholds would have to be established before Ameren's billing system could be programmed to distinguish between Heating and Non-Heating customers. (Id. at 16:276-278.) Until those criteria are established, Ameren would not be able to customize its billing system or COS study method to determine the cost to serve non-heating customers separately from the cost to serve heating customers. (Id. at 16:278-282.)

In this rate case, Staff recommends that the Commission direct the Company to present information and data with the initial filing of its next gas rate case that would assist in determining the costs and benefits if GDS-1 customers were bifurcated into distinct heating and non-heating classes. (Id. at 16:287-290.) This information should include a method for distinguishing between heating and non-heating customers and the estimated costs; the timeframe necessary to program Ameren's billing system to distinguish between heating and non-heating customers and estimates of the cost to serve the two groups of customers. (Id. at 16:290-294.) This would enable the Company and the parties to that proceeding to analyze the data and determine whether creation of a Heating and Non-Heating GDS-1 customer class would better reflect the cost to serve these two distinct subclasses of customers. (Id. at 16-17:294-297.) At that time, if it is determined that bifurcation of the GDS-1 class is desirable, the

Commission could order the Company to include that class bifurcation in the COS study for the following Ameren gas rate filing. (Id. at 17:297-300.)

3. Proposed Rate Increases for Rate Zone III GDS-4

The Commission should reject AG/CUB witness Rubin's proposal to increase rates for GDS-4 customers in Rate Zone III by between 2.0 and 2.4 times the system average increase. (AG/CUB Ex. 3.0, 16:302-317; Staff Ex. 15.0, 14:247.) For the reasons indicated previously in Section VI. B.1. of Staff's IB, the Commission should continue with the 1.5 times the system average constraint for any customer class. Mr. Rubin's proposal would exceed this constraint. (Staff Ex. 15, 14:236-251.)

4. Proposed Rate Design for Rate Zone II GDS-4

Ameren's proposed rate design for the GDS-4 class is reasonable and it is Staff's recommendation that the Company's proposed rate design be approved for rate making in this proceeding. (Id. at 28-29:539-549.)

The Commission should reject Mr. Collins' proposal to maintain the existing rate structure for GDS-4 in Rate Zone II and increase the delivery and demand charges by the class average percent (limited to 1.5 times the system average, if necessary) resulting from the COS studies. (IIEC Ex. 2.0, 14:301-306.) The Company's proposed rate design for the GDS-4 class in Rate Zone II is appropriate. The Company's facilities are designed and installed to meet customer peak demand. (Staff Ex. 15.0, 27:514-516.) Ameren's rate design is intended to send proper price signals on the basis of peak demand. (Id. at 27:515-516.) Ameren's proposal to eliminate the separate demand charges for customers who use less than two million therms versus those who use more than two million therms is a move toward inter- and intra-class price uniformity

for the GDS-4 class. (Id. at 27:516-519.) This proposal also intends to mitigate undue customer bill impacts by limiting the rate increases for the class as a whole to 1.5 times the system average. (Id. at 27:519-521.)

Mr. Collins' proposal is based on the concern that some individual customers in the Rate Zone II GDS-4 class will see an increase greater than the 1.5 times the system average increase constraint that is applied to the GDS-4 class as a whole. (IIEC Ex. 2.0, 13:285-289.) Mr. Collin's testimony discusses a hypothetical situation where a customer using over 2 million therms could receive an increase of up to 1.9 times the system average. (IIEC Ex. 2.0, 14:298-300.) Nevertheless, the Company has indicated that a very small percentage of customers (only 12.5% of the customers in the class according to the sample size) would even have the potential to exceed the 1.5 times the system average increase. (Ameren Ex. 9.0, 29:613-629.) No rate design proposal can be a perfect fit for all customers and, in this case, some GDS-4 customers in Rate Zone II have the potential to see their rate increase above the 1.5 times the system average increase constraint. (Staff Ex. 15.0, 28:528-531.) The Company has attempted to mitigate rate shock to all customer classes in all rate zones while forging ahead with the Commission's preference to move toward price uniformity. (Id. at 28:531-534.) IIEC's proposal does not allow for movement toward price uniformity and its argument that the rate increase would potentially exceed the Company's proposed rate increase constraint of 1.5 times the system average only applies to a very small percentage of customers. (Id. at 28:534-537.)

IIEC witness Collins argues that rate uniformity for the GDS-4 class is not appropriate, and that separate COS studies for each rate zone should continue to be

performed by the Company and each zone's rate for the GDS-4 class should continue to be developed based on those COS studies. (IIEC Ex. 2.0, 12:246-261.) The Commission should reject Mr. Collins' proposal.

Rate uniformity, also referred to as Single Tariff Pricing, is a rate design that the Commission has supported and encouraged in past rate cases when the COS study revealed that the charges to recover full cost of service for the class are "close enough" and that those uniform charges collectively will recover the costs to serve each rate zone in the class. Ameren Illinois Co., ICC Order Docket No. 11-0282, 139 (Jan. 10, 2012); Illinois-American Water Co., ICC Order Docket No. 07-0507, 97 (July 30, 2008); Illinois-American Water Co., ICC Order Docket No. 02-0690, 121 (Aug. 12, 2003); Illinois-American Water Co., ICC Order Docket No. 00-0340, 29 (Feb. 15, 2001).

Staff recommends that the Company's proposed rate design be approved for rate making in this proceeding. (Staff Ex. 15.0, 29:548-549.) Ameren's proposed rate design for the GDS-4 class is reasonable and reflects movement toward rate uniformity. (Id. at 28-29:543-545, 547-549.) The Company proposes uniform Customer Charges (\$600) for the GDS-4 class customers who use less than 10,000 therms/day in each rate zone. (Ameren Ex. 9.0, 26:557-562.) The Company proposes a \$700 Customer Charge for Zone I GDS-4 customers who use more than 10,000 therms/day and a \$1,200 monthly Customer Charge for Zone II and Zone III GDS-4 customers that use more than 10,000 therms/day. (Id., 26:557-562.) The proposed revenues that the GDS-4 customers will provide through the monthly Customer Charges as described above will generate revenues that will approach full recovery. (Staff Ex. 15.0, 25:470-472.) However, in this rate design proposal, revenue recovery will be approximately \$60,000

short of full costs to serve the class. (Id. at 25:473-474.) The Company's proposed rate design provides for uniform charges for all GDS-4 customers who use less than 10,000 therms per month in each of the Company's rate zones and two of the three zones (Rate Zones II and III) will have uniform Customer Charges for customers who use over 10,000 therms per month. (Id. at 25:474-478.) If the Commission approves Ameren's proposed GDS-4 rate design in this proceeding, then the Company should target full price uniformity that recovers full cost of service for the GDS-4 customer class in Ameren's next rate case. (Id. at 25:478-481.)

The Commission has been moving toward price uniformity for customers that have similar usage and load characteristics. (Id. at 28:542-543.) The Company's proposals for the GDS-4 class in each rate zone reflect movement toward price uniformity while attempting to mitigate rate shock for all customers in the class. (Id. at 28:543-545.) While there is the potential to exceed the Company's proposed rate increase constraints for a small percentage of customers, Ameren's proposed rate design for the GDS-4 class is reasonable and therefore it is Staff's recommendation that the Company's proposed rate design be approved for rate making in this proceeding. (Id. at 28-29:546-549.)

VIII. SVT PROGRAM

A Small Volume Transportation ("SVT") service is a service tailored to meet the needs of residential and small commercial customers.⁵ (Staff Ex. 7.0, 3:36-37.) However, somewhat larger customers with similar needs are also eligible for this

⁵ Small commercial customers are defined as commercial customers that use less than 5,000 therms per year.

service. (Id. at 3:37-38.) Transportation service allows customers to buy gas from unregulated, nonutility suppliers. (Id. at 3:38-39.)

AIC has existing transportation service tariffs that govern how unregulated sellers supply their retail customers. (Id. at 3:39-41.) These retail customers are typically larger customers that are relatively few in number. (Id. at 3:41-42.) For smaller customers, utilities use a different set of rules to coordinate the unregulated supply of many small customers. (Id. at 3-4:42-44.) In order to sell to SVT customers, suppliers must acquire a certificate from the Commission. (Id. at 4:44-46.) Those certificated suppliers are sometimes identified as Alternative Retail Gas Suppliers (“ARGS”). (Id. at 4:46-47.)

In AIC’s last gas rate case, Docket No. 11-0282, the Commission directed Staff to conduct workshops on an Ameren SVT program. 11-0282 Order at 194. The 11-0282 Order concluded that if the workshops reached consensus amongst the parties, AIC was to file tariffs implementing that consensus. (Id.) In the event that a consensus was not reached, Staff was to file a report with the Commission “detailing the workshop process and the issues and discussions presented by the parties. (Id. at 194-195) The workshops did not achieve complete consensus (Ameren Ex. 1.0, 6:100-102), and Staff submitted its report to the Commission on January 10, 2013. (Staff Ex. 7.0, 5:78-80.) At Staff’s request, Ms. Seckler filed Supplemental Direct Testimony attaching two versions of possible draft SVT tariffs. (Id. at 5:80-82; See Ameren Exhibits 13.1 and 13.2.)

A. Resolved Issues

1. SVT Program Separate Proceeding

Staff recommends that the Commission limit its determination in this docket to whether AIC should implement an SVT program and, as it has done in previous dockets, order the Company to submit draft SVT tariffs for Commission review in a future proceeding. (Staff Ex. 7.0, 7:135-137.) Although Rider SVT was extensively discussed in the workshops, Riders GSIC and GTA were introduced later in the workshops, and several unresolved issues remain concerning these riders. (Id. at 7:140-142; Staff Ex. 16.0, 3:49-59.) Additionally, the Company, which also advocates for a separate proceeding, states that its SVT program will not be operational until the fourth quarter of 2014. (Ameren Ex. 13.0, 3:52-53.) That means that there is sufficient time to litigate the SVT tariffs in a separate docket that begins after this docket is concluded. (Staff Ex. 7.0, 7:144-146.) Thus, if the Commission orders AIC to begin implementing an SVT program in this case, it should instruct AIC to file SVT-related tariffs in a future proceeding in order to allow interested stakeholders, including Staff, ample opportunity to vet the Company's proposed tariffs. (Id. at 8:153-157.)

Consideration of the SVT tariffs in a separate docket is consistent with prior Commission practice. Both Nicor and Peoples Gas/North Shore Gas litigated earlier versions of their SVT programs in dockets that concerned only SVT tariffs. (Id. at 8:159-160.) Nicor litigated its SVT tariffs in Docket Nos. 00-0620/0621 (Cons.). (Id. at 8:160-164.) North Shore Gas and Peoples Gas litigated their SVT tariffs in Docket Nos. 01-0469 and 01-0470, respectively. (Id. at 8:164-167.) And Nicor litigated its proposed POR program and Rider 17 in Docket No. 12-0569. (Id. at 8:167-169.)

Further, Ameren's draft SVT tariffs were not included in Ameren's Part 285 filing in this docket, and thus were not suspended by the Commission, raising the possibility

that stakeholders may inadvertently be denied an opportunity to examine and weigh in on SVT program details. (Staff Ex. 7.0, 8:147-153.) Some elements of those tariffs were not introduced until late in the workshops (Id. at 7:140-143) and as Staff has examined the tariffs, various operational questions have arisen that have not been resolved in this docket (Staff Ex. 16.0, 3:51-52). Staff does not agree on all aspects of Riders GTA (Gas Transition Adjustment) and GSIC (Gas System Integrity Charge Calculation) and how they will interact with Rider PGA. (Staff Ex. 7.0, 7:52-55.) In addition, no witness has addressed how to calculate a Price-to-Compare to improve customers' ability to compare offers from Alternative Gas Suppliers ("AGS") and to sales service. (Id. at 7:55-57.)

Ameren witness Mr. Nelson also recommends that the Commission deal with the details of the program such as operations and tariffs in another docket. (Ameren Ex. 16.0 (2d. Rev.), 14:290-291.) He states that, in particular, the Company "is prepared to file a petition, supporting testimony and exhibits, including tariffs in support of the SVT program, within 45 days after the date of the order in this docket." (Id. at 14:303-304.) He also notes that any information developed here can improve the program and "whatever direction the Commission offers will be incorporated." (Id. at 14:308-310.) Finally, Mr. Nelson commits AIC to a schedule in the separate docket that "permits the SVT program to begin operations in the 4th quarter of 2014." (Id. at 15:335-337.) This timeframe would allow ample time for the consideration of the SVT tariffs in a separate proceeding. (Staff Ex. 7.0, 7:144-146.)

For all of the forgoing reasons, Staff recommends that the Commission limit its determination in this docket to whether AIC should implement an SVT program and

order the Company to submit draft SVT tariffs for Commission review in a separate proceeding.

2. Budget Billing Plan for SVT Customers

3. Rider SVT

i. Assessment of Pipeline Penalties

In Ameren Exhibit 13.2, AIC indicates that pipeline penalties are assessed only on Rider S and Rider T customers. (Ameren Ex. 13.2, 59-60.) For those ARGSS that are allocated some of AIC's transportation and storage capacity, their penalties will be assessed directly by the pipeline. (Id.) However, Staff noted that SVT customers should not be excluded from paying the penalties regardless of the situation or penalty cause. (Staff Ex. 7.0, 12:257-258.)

AIC agreed, stating "[t]he Company wants to ensure the tariffs provide the ability to assess penalties to the appropriate customers[.]" (Ameren Ex. 26.0, 12:241-242.) However, ICEA/RESA disagreed, arguing that "pipeline penalties incurred by SVT suppliers that are assigned pipeline and storage assets are assessed directly to AGS by the pipeline in question. Further...the SVT Supplier Terms and Conditions already provide that nay such penalty be passes through to the responsible supplier. Whether to pass such penalties on to their customers should at that point be at the discretion of the AGS." (ICEA/RESA Ex. 4.0, 15-16:322-328.)

In its surrebuttal testimony, AIC acknowledges these concerns and leaves the decision in the Commission's hands. (Ameren Ex. 40.0, 8:158-163.) Staff remains concerned with how pipeline penalties are allocated between customers and how SVT customers are assessed any penalties.

- ii. Utility Consolidated Billing**
- iii. Stakeholder Meetings**
- iv. Rescission Period**
- v. Tariff Language Changes**

ICEA/RESA witness Puican argues that Ameren should change asset allocations for each market every month based upon changes to the marketer's customer base. (ICEA/RESA Ex. 2.0, 9:182-10:209.) He makes three points. One, it discourages suppliers from adding customers between April and November, since an SVT supplier that adds customers has to buy gas for its customers from Ameren. (Id.) Two, since there is a provision for recalling capacity from suppliers that lose customers, he alleges that it is "relatively straightforward" to re-allocate to suppliers that are gaining customers. (Id.) Three, it enables suppliers "greater flexibility in how they source and supply their gas[.]" (Id.)

AIC rejects the proposal, arguing that monthly asset allocation created too much complexity and administrative burdens. (Ameren Ex. 26.0, 16-20.) Further, utility systems are not all alike, and some utilities have more supply flexibility than others. (Id. at 19-20:410-416.) In addition, AIC agrees to modify its tariffs so that Ameren only starts charging the PGA price for the daily delivery requirement after the SVT group demand exceeds its maximum daily quantity. (Id. at 20:417-423.)

Staff agrees with ICEA/RESA that biannual allocations are likely to discourage suppliers from adding customers between November and April. (Staff Ex. 16.0, 15:320-321.) And it is likely to make it more difficult for SVT marketers to manage their supply to their customers. (Id. at 15:321-323.) Further, it is difficult to evaluate the administrative burden that monthly allocations present to Ameren. (Id. at 15:323-324.)

However, these problems cannot be entirely dismissed as well. (Id. at 15:324-325.) Staff recommends that this issue be considered later based upon Ameren's experience in administering the SVT program. (Id. at 15:325-326.)

Staff witness Burma Jones proposed the following language change to the SVT Supplier Terms and Conditions, with which the Company agreed:

SVT SUPPLIER TERMS AND CONDITIONS

Definitions

Gas Supply Service

The accounts receivable purchased ~~for~~ from the Supplier shall not include any other costs.

(Staff Ex. 8.0, 3:54-58; Staff Ex. 17.0, 2:25-27; Ameren Ex. 26.0, 13:274-276.)

Ms. Jones also proposed language changes to the definitions of Over Delivery and Under Delivery in the Customer Terms and Conditions. (Staff Ex. 8.0, 4:77-88.) The Company agreed in principle but recommended minor changes, with which Ms. Jones agrees. (ICC Staff Ex. 17.0, 2:25-30.) The agreed upon language is as follows:

CUSTOMER TERMS AND CONDITIONS

DEFINITIONS

Over Delivery

Over Delivery occurs when the delivery of a SVT Group's, Rider T Group's or Rider T Customer's gas delivery, ~~as applicable~~, is greater than the ~~usage of a SVT Group's, Rider T Group's or Rider T Customer's, as applicable such group's respective gas usage~~ their gas usage. An Over Delivery is determined on a calendar month basis for SVT Groups. An Over Delivery is determined on a daily or monthly basis, as applicable, for Rider T Customers and Rider T Groups.

Under Delivery

Under Delivery occurs when the delivery of a SVT Group's, Rider T Group's or Rider T Customer's gas delivery, ~~as applicable~~, is less than the ~~usage of a SVT Group's, Rider T Group's or Rider T Customer's, as applicable such group's respective gas usage~~ their gas usage. An Under Delivery is determined on a calendar month basis for SVT Groups. An Under Delivery is determined on a daily or monthly basis, as applicable, for Rider T Customers and Rider T Groups.

(Ameren Ex. 26.0, 14:291-302.)

In response to Staff witness Dr. David Rearden's concern that the information on a "Cities by Pipeline" list maintained on the amerenillinois.com web site should be part of the tariffs, the Company agreed to the following language changes that provide for the "Cities by Pipeline" list to be attached as an informational sheet to the SVT Supplier Terms and Conditions tariff (Staff Ex. 17.0, 4-5: 80-86):

**RIDER SVT-SMALL VOLUME TRANSPORTATION SERVICE
APPLICATION FOR SERVICE**

In order to receive service under Rider SVT a Customer must contact a Supplier providing gas supply service under Rider SVT and request SVT gas supply. When a Customer elects to receive service under Rider SVT, the Customer's Account shall be assigned to a specific Pipeline as designated in the ~~Cities by Pipeline list which can be found on amerenillinois.com.~~ informational sheet, Cities by Pipeline, attached to the SVT Supplier Terms and Conditions tariff, which information can also be found at amerenillinois.com. The informational sheet will be updated as needed. An updated informational sheet shall be filed with the Commission on or before the 20th day of the month and shall become effective the 1st day of the following calendar month. All Accounts associated with a specific Supplier and Pipeline shall be considered a SVT Group.

(Id. at 5:87-101.)

SVT SUPPLIER TERMS AND CONDITIONS

C. Gas Delivery Pipeline Assignment

When a Customer elects to receive service under Rider SVT, the Customer's Account shall be assigned to a specific Pipeline as designated in the ~~Appendix A, the Cities by Pipeline, of this tariff. list available at amerenillinois.com.~~ informational sheet, Cities by Pipeline, attached to this tariff, which information can also be found at amerenillinois.com. The informational sheet will be updated as needed. An updated informational sheet shall be filed with the Commission on or before the 20th day of the month and shall become effective the 1st day of the following calendar month. All Accounts associated with a specific Supplier and Pipeline shall be considered a SVT Group.

(Id. at 5:102-113.)

4. Rider GTA

Rider GTA is designed to ensure that sales customers do not pay the costs that they should not pay. (Staff Ex. 7.0, 9:191-192.) When customers switch from sales to SVT service, AIC requires less supply to meet sales demand, but AIC must enter into contracts for gas prior to customers purchasing it. (Id. at 9:192-194.) If customers switch too fast, AIC may buy more gas than customers need. (Id. at 9-10:194-197.) AIC can relieve that surplus by selling the gas back into the market. (Id. at 9-10:197-198.) In AIC's original proposal, it would first determine which contracts are incremental and then terminate or sell the supply associated with those contracts back into the gas market. (Id. at 10:198-200; Ameren Ex. 26.0, 6:128-137.) However, there may be a difference between the price that AIC paid (commodity cost plus any financial hedging on the purchase) and the market price at which AIC can sell the gas, or alternatively, the cost to terminate the contract. (Staff Ex. 7.0, 10:200-203.) Rider GTA allocates this cost difference solely to SVT customers. (Id. at 10:203-204.)

AIC argues that Rider GTA is necessary, since it is a way to hold sales customers harmless from having to bear the costs to liquidate gas contracts that are no longer needed because customers have migrated to SVT. (Staff Ex. 16.0, 3:62-64; Ameren Ex, 26.0, 4:75-84.)

Staff agrees that sales customers should be held harmless if AIC unintentionally buys too much gas for them. (Staff Ex. 7.0, 10:212-213.) In this situation, customers remaining on sales service should not be held responsible for any costs caused by switching to SVT service. (Id. at 10:213-215.) Given that Rider SVT will not become operational for a year and a half, AIC may not need Rider GTA, since AIC may be able to adjust its portfolio to accommodate SVT service. (Id. at 10-11:217-219.)

i. Sunset Provision

AIC witness Seckler notes that Rider GTA is intended to be a ‘transitional’ rider. (Ameren Ex. 26.0, 23:483.) Thus, she suggests that Rider GTA could sunset after three years, although she notes the Company reserves the ability to seek an extension. (Id. at 23:486-490.) In particular, if municipal aggregation legislation is enacted, she is concerned that customers will switch to SVT faster than Ameren can adjust its portfolio. (Id. at 23:491-494.) In that case, Rider GTA is an important method to protect sales customers from costs that they do not cause. (Id. at 23:483-499.) Staff agrees that a sunset provision is prudent, and that a three year limit should be sufficient to determine whether the rider will be needed going forward. (Staff Ex. 16.0, 5:95-96.)

ii. Use of System Weighted Average Cost of Gas

AIC originally proposed that Rider GTA first decide which pipeline and supply location has excess supply. (Ameren Ex. 13.2, 34; Staff Ex. 7.0, 10:206.) If more than one contract on the same pipeline and location is involved, it proposes to sell off the contract with the latest trade date first. (Ameren Ex. 13.2, 34; Staff Ex. 7.0, 10:206-208.) Rider GTA does not further specify how it would choose contracts to liquidate. (Ameren Ex. 13.2, 34; Staff Ex. 7.0, 10:208-210.)

Staff believes that designating one particular contract as the incremental contract is arbitrary. (Staff Ex. 7.0, 11:220-221.) Excess supply results from all purchases versus all sales. (Id. at 11:221.) Also, gas that AIC sells into the market can physically originate from anywhere: there is no necessary connection between the supply location and the location it is sold. (Id. at 11:222-223.) Different gas sources as well as sales locations are both interchangeable. (Id. at 11:224.)

If the Commission approves Rider GTA, it should modify how it is calculated. (Id. at 11:225.) Staff recommends that Rider GTA should compare the market cost to liquidate (or otherwise shed supply) to the system weighted average cost of gas (“WACOG”). (Staff Ex. 16.0, 5:97-100.) Rather than selecting one particular contract or group of contracts to compare to market prices, the rider should use the system WACOG to compare to current market prices. (Staff Ex. 7.0, 11:220-221.) Since sales customers did not cause the need to liquidate supply, they should not have to pay increased rates for the gas that they do purchase. (Staff Ex. 16.0, 7:136-138.)

AIC witness Seckler developed an example of how AIC intended Rider GTA to allocate costs. (Ameren Ex. 26.0, 9.) Staff witness Rearden showed, using the same example, that under Ameren’s proposal the PGA is reduced by the amount of the contract, but the PGA rate rises. (Staff Ex. 16.0, 7:136-141.) That is, sales customers pay an increased WACOG in Ameren’s scheme, since ‘incremental supply’ is lower cost than the WACOG with the full contract. (Id.)

In order to keep sales customers from paying higher unit costs, Staff proposes to compensate sales customers at the WACOG that existed before the liquidation. (Id. at 8:163-165.) In order to accomplish that, Rider GTA has to increase by the amount that is credited to the PGA less the sales revenue. (Id. at 8:155-169.)

Further, under Staff’s proposal, it is immaterial which contract is liquidated or otherwise sold. (Id. at 9:170.) Irrespective of the market price at which the contract can be liquidated, sales customers are held harmless. (Id. at 9:171-172.) SVT customers bear the risk for market price variations. (Id. at 9:172-173.) Staff posited additional market prices to demonstrate the effect that various sales prices have on the two riders.

(Id. at 8:152-154.) In all cases under Ameren's proposal, the PGA is only credited the cost of the contract, which raises WACOG. (Id. at 9:174-176.) Under Staff's proposal, the WACOG for sales customers remains constant, and there is a credit to Rider GTA only when the market price is sufficiently high to generate more margin than the amount required to hold sales customers harmless. (Id. at 9:177-180.)

Ameren's original plan, which singles out an individual contract, is arbitrary. (Id. at 7:130-131.) The resulting reduction in the PGA applies to all sales customers, including those not in the same area as the contract liquidated. (Id. at 6:123-125.) SVT customers, including those not in that same area, incur an increase in Rider GTA. (Id. at 6:125-126.) Thus, under Ameren's proposal, SVT customers that have nothing to do with the need for Ameren to liquidate part of a contract are subject to Rider GTA. (Id. at 6:126-128.) The SVT customers in all locations either receive a windfall or must pay additional costs. (Id. at 6-7:128-130.) In addition, it takes all three contracts for there to be too much supply. (Id. at 7:132-133.) For those reasons, Ameren's proposal arbitrarily claims that one contract is the incremental supply. (Id. at 7:133-134.)

iii. Tariff Language Changes

Staff witness Jones proposed the following language change to Rider GTA, with which the Company agreed:

RIDER GTA – GAS TRANSITION ADJUSTMENT ANNUAL RECONCILIATION

~~The annual review to reconcile~~ An annual reconciliation of costs and revenues pursuant to this Rider shall be conducted in conjunction with the docketed reconciliation proceeding for Rider PGA – Purchased Gas Adjustment Gas Charge for the applicable period as follows.

(Staff Ex. 8.0, 4:71-76; Staff Ex. 17.0, 2:25-27; Ameren Ex. 26.0, 13:274-276.)

5. Rider GSIC

i. Identification of Costs to be Recovered

AIC will not allocate certain assets to ARGSSs. (Staff Ex. 7.0, 11:231; Ameren Ex. 26.1, 29.) AIC needs those assets to balance load on the system for all customers, not just sales or transportation customers. (Id. at 11:231-233.) To properly recover the cost of the retained assets, it must subtract those costs from the PGA. (Id. at 11:233-234.) The rider charges these assets' cost to all sales and transportation customers except GDS-7 customers. (Id. at 11:234-236.)

The concept for Rider GSIC is theoretically sound if AIC has a consistent and well thought out approach to the assets it selects to retain to balance and manage its system. (Id. at 12:238-240.) However, AIC does not specify which assets are to be included in the rider. (Id. at 12:240-241.) It is difficult to evaluate the rider when this crucial element is missing. (Id. at 12:241-242.)

Staff recommends that AIC provide more detail about which assets it intends to include in Rider GSIC and provide a more complete explanation for how those decisions are made. (Id. at 12:245-246.) In addition, there should be a clearer understanding for why costs are recovered in Rider GSIC and not Rider PGA or Rider GTA prior to their inclusion in this rider. (Staff Ex. 16.0, 11:232-234.) These are further examples for why the tariffs are best left to a separate docket.

AIC points out that Rider GSIC does generally describe the types of assets whose costs are to be recovered in Rider GSIC. (Ameren Ex. 26.0, 11:217-219.) AIC witness Seckler specifically mentions "lateral contracts, pipeline balancing contracts, standard pipeline services such as transportation and no-notice storage, and buying and selling natural gas." (Id.) Ameren does not believe the individual contracts should be included in the tariff, since the tariffs would need to change every time the asset

portfolio does. (Id. at 11:219-221.) And Ameren may need to frequently change the portfolio in response to real time events. (Id. at 11:221-223.) Finally, she notes that the rider is subject to an annual reconciliation. (Id. at 11:225-227.)

Ameren provided three ways that costs could be recovered under Rider GSIC. (Staff Ex. 16.0, Attachment C.) One, “costs for all assets that AIC cannot release to another party or that are secured to physically support a captive system would be moved from Rider PGA to Rider GSIC.” (Id.) Four example contracts are specified. (Id.) Two, an annual study will determine which contracts should be moved from Rider PGA to Rider GSIC based on whether it is used for balancing the system or not. (Id.) Three, “intraday and same day purchases or sales of gas” are recovered in Rider GSIC, because “these transactions are made when actual weather differs from forecasted weather causing load variations.” (Id.)

Staff notes that Rider GSIC in Ameren Ex. 26.1 only mentions general asset categories, not the particular assets. Staff is concerned that AIC make clear which assets have costs that should be recovered in Rider GSIC and which costs should be recovered in Riders PGA and GTA. Otherwise, Rider GSIC reconciliation will have to be within the context of reconciling the PGA and Rider GTA and it may not be obvious which costs should be allocated to which rider. (Staff Ex. 16.0, 10:194-201.) This question is not a moot point, since Ameren anticipates that Rider GSIC will never be zero and that it will retain assets on each interstate pipeline and on-system storage field. (Staff Ex. 16.0, Attachments D through F.)

ii. Storage Inventory Transactions

iii. Tariff Language Changes

Staff witness Jones proposed the following language changes to Rider GSIC, with which the Company agreed:

**RIDER GSIC – GAS SYSTEM INTEGRITY CHARGE
CALCULATION**

UBCC =Such charge shall be based on the annual estimated Rider S, or and Rider SVT Therms, ~~as applicable~~, and shall be determined at least once annually.

(Staff Ex. 8.0, 3:59-63; Staff Ex. 17.0, 2:25-27, Ameren Ex. 26.0, 13:274-276.)

**ANNUAL RECONCILIATIONS
GSIC Reconciliation**

~~The An~~ annual GSIC reconciliation ~~to reconcile~~ of costs and revenues, excluding UBCC, pursuant to this Rider shall be conducted in conjunction with the docketed reconciliation proceeding for Rider PGA-Purchased Gas Adjustment Gas Charge for the applicable period as follows.

(Staff Ex. 8.0, 3:64-70; Staff Ex. 17.0, 2:25-27; Ameren Ex. 26.0, 13:274-276.)

6. Price to Compare

B. Contested Issues

1. Approval of SVT

Staff does not oppose the Commission ordering Ameren to implement an SVT program. Staff believes that the Commission has already indicated that it favors retail competition. (Staff Ex. 7.0, 9:171-172.) The Commission stated in the 11-0282 Order:

The Commission notes that it has long had a policy favoring competition in energy markets, and the Commission believes that customers will generally benefit from being given the opportunity to participate in a well-designed competitive market. The Commission also recognizes that the Act also generally supports competition in the market, and that the Commission has consistently advanced this view.

11-0282 Order at 193.

In the 11-0282 Order, the Commission found that customers benefit from a well designed SVT program. (Id.) Due to the work done in the workshops and in this

docket, and the work that can occur in a potential docket to consider just the SVT tariffs (see Section VIII.A.1. of Staff's IB), Staff believes that those tariffs will be well designed. (Staff Ex. 16.0, 1-2:20-23.)

AIC witness Nelson states "AIC stands ready to implement small volume transport service if the Commission so directs and approves recovery of related costs." (Ameren Ex. 1.0, 6:111-112.) Ameren estimates that it needs to invest \$10.6 million to implement an SVT program. (Ameren Ex. 26.0, 29:632.)

Ameren makes clear that it is only requesting that the Commission decide whether it wants an SVT program. AIC witness Nelson states, "in this proceeding we are looking for the Commission's decision on whether the Company should go forward with a SVT program." (Ameren Ex. 16.0 (2d. Rev.), 12:245-246.) In particular, he wants the Commission to approve Ameren's cost recovery to implement the program. (Id. at 11:242-244.) AIC witness Seckler provided the last draft of the SVT tariffs that workshop participants examined (Ameren Ex. 13.1), and an Ameren-edited version of those tariffs (Ameren Ex. 13.2). Ms. Seckler argues that these exhibits are not "critical to any policy decision the Commission may make regarding whether AIC should provide SVT service[.]" (Ameren Ex. 13.0, 2:30-32.) She also reiterates Mr. Nelson's point that "AIC is neutral with regard to the adoption of SVT and considers the matter a question of policy to be determined by the Commission." (Id. at 3:46-47.)

In response to Staff data requests POL 1.1, AIC states, in pertinent part:

The Company was asked by Staff to provide draft tariffs developed from the SVT workshop and the Company agreed to do so in the testimony of Ms. Seckler. To the extent the Commission orders the Company to implement an SVT program, including cost recovery for all system enhancements required for the implementation of SVT as set forth in the Company's filing, the Company will file

compliance tariff sheets with the Commission subsequent to such Commission Order.

(Staff Ex. 7.0, 5:90-97.)

If the Commission approves an SVT program for Ameren, it should litigate the SVT tariffs in a separate docket, as discussed in Section VIII.A.1. of Staff's IB. The Commission has previously indicated that it favors retail competition. The work already done on SVT tariffs in prior workshops, and that will occur in a future docket, indicate that those tariffs will be well-designed. Moreover, as the Company has noted, approval of SVT tariffs in this proceeding are not necessary in making the policy determination of whether to approve an SVT program. Therefore, Staff does not oppose the Commission ordering Ameren to implement an SVT program.

2. Purchase of Receivables

3. Consumer Protections

4. Discount Rate for SVT and UCB/POR Customers

Ameren witness Jones explains the Company's proposed Purchase of Receivable ("POR") program. (Ameren Ex. 23.0, 15:289-294.) He notes that AIC buys the receivables at a discount from marketers; that is, AIC acquires the rights to the marketers' revenues, but retains a percentage of actual revenues to compensate it for bills that cannot be collected. (Id. at 15:290-300.) The discount is the Rider S uncollectibles factor based on supply-related uncollectible expense. (Id. at 15:290-300.)

ICEA/RESA argues that AIC should separately track uncollectibles data for SVT and sales customers and should apply the resulting different rates to each customer group. (ICEA/RESA Ex. 4.0, 12-13:227-258.) However, ICEA/RESA concedes to using a single rate for both customer classes at startup, though it argues that this should be

revisited after 12 months of SVT program experience and the SVT program participation is 20% of eligible customers. (Id.)

Staff disagrees that SVT customers should necessarily have different discount/uncollectible percentages. (Staff Ex. 16.0, 13:276-277.) In other dockets, marketers have argued that costs should be socialized on the grounds that all customers benefit from the ability to purchase gas in the SVT market. (See Docket No. 12-0511/0512, IGS Ex. 1.0, 34:800-813.) It is unclear why marketers press for a different outcome for this issue in this docket. (Staff Ex. 16.0, 13:280-281.) At a minimum, there should be sufficient time to evaluate the experience with uncollectibles before amending the POR program. (Id. at 13:281-283.)

5. Rider GTA

ICEA/RESA proposes that transportation customers be subject to Rider GTA for only one month, since the PGA is adjusted monthly. (ICEA/RESA Ex. 2.0, 11:247-249.) AIC rejects this proposal and argues that gas contracts are not one month contracts, so there is no correspondence between how often the PGA rate is adjusted and the term length in the portfolio's contracts. (Ameren Ex. 26.0, 22:473-481.) Staff agrees with AIC, and recommends that the Commission reject ICEA/RESA's proposal.

i. Definition of System Weighted Average Cost of Gas

Ms. Seckler argues that system WACOG needs to be defined. (Ameren Ex. 26.0, 8:170-171.) Staff agrees. (Staff Ex. 16.0, 5-6:107-108.) In some circumstances, Factor CGC in the PGA might be used. (Id. at 6:108.) Another more directly calculated

method might be viable. (Id. at 6:108-109.) This appears to be another issue that could be resolved in a separate SVT tariff docket. (Id. at 6:109-110.)

6. Rider GSIC

7. Rider PGA

Staff witness Jones proposes excluding language that the Company inserted in Rider PGA that references the annual reconciliations associated with Riders GTA and GSIC (“Riders”) because the placement of the language and the language itself give the impression that the reconciliations of the Riders are part of the Rider PGA reconciliation, which has not been established. (Staff Ex. 17.0, 3:43-45, 4:71-73.) Further, the reconciliation language within the Riders indicates that a separate reconciliation will be filed for each in conjunction with the Rider PGA reconciliation; it does not indicate that they are to be included in the Rider PGA reconciliation. (Id. at 3:45-49.)

Company witness Vonda Seckler observes that the Riders cross reference being part of the Rider PGA annual reconciliation. (Ameren Ex. 26.0, 14:282-283.) In Ms. Jones’ opinion, the reference to the PGA reconciliation in the Riders simply establishes the time frame of when the individual reconciliation for each of the respective Riders will occur; i.e., at the same time and in the same docketed proceeding as the annual PGA reconciliation (with which Staff has expressed no disagreement). (Staff Ex. 17.0, 3:57-63.) In contrast, the references to the annual reconciliations for the Riders found in Rider PGA strongly suggest that they must be included in the PGA reconciliation. (Staff Ex. 17.0, 3-4:63-65.)

The purpose of a reconciliation is to match prudent costs incurred with revenues collected under the rider to determine if there is under or over-recovery of costs and the

treatment thereof. (Tr. 317:18-22, Aug. 27, 2013.) The costs recovered and the revenues collected through the Riders are not part of Rider PGA and, thus, cannot be included in its reconciliation. (Tr. 314:15-23, 315:20-24, 316:1-2, 317:23-24, 318:1-7, Aug. 27, 2013.) The following changes to Rider PGA to remove language regarding the annual reconciliations associated with the Riders are appropriate and should be approved by the Commission.

**RIDER PGA – PURCHASED GAS ADJUSTMENT
SECTION G - ANNUAL RECONCILIATION**

In conjunction with a docketed reconciliation proceeding, the Company shall file with the Commission a calendar-year reconciliation statement, which shall be certified by the Company's independent public accountants and verified by an Officer of the Company. This statement shall show the difference between the following:

1. the costs recoverable through the Gas Charge(s) during the Reconciliation Year as adjusted by Factor A and Factor O, and
2. the revenues arising through the application of the Gas Charge(s) to applicable Therms during the Reconciliation Year, ~~and~~
3. ~~the costs and revenues arising through the application of Rider GTA to applicable Therms during the Reconciliation Year, and~~
4. ~~the costs and revenues arising through the application of Rider GSIC to applicable Therms during the Reconciliation Year.~~

(Staff Ex. 8.0, 4-5:89-111.)

IX. OTHER Proposed Riders and Tariff Changes

A. Resolved Issues

1. **QIP-Eligible Projects**
2. **Implementation of uniform Uncollectible Factor for purposes of administering Rider GUA**

B. Contested Issues

X. Other

A. Accepted Recommendations

Staff witness Pearce proposed (Staff Ex. 4.0R, 13-14: 273-314) the following reporting requirements that were accepted by AIC in the rebuttal testimony of AIC witness Nelson (Ameren Ex. 16.0, 16:338-356), as described in Sections X.A.1. and X.A.2.i. below. The Commission should order the Company to provide the information requested in each of these recommendations in the Findings and Orderings section of the final order issued for this proceeding.

1. Impact of Divestiture of Merchant Generating Assets in Future Rate Case

AIC will assess the impact of the potential divestiture of the merchant generating assets in the subsequent gas rate proceeding and will provide evidence in that proceeding that an effort was made to mitigate the costs of the transaction and corresponding impact on AIC and its affiliates.

2. Reporting Recommendations

i. FERC Form 60 and FERC Audits Provided to Manager of Accounting of Commission

1. AIC will provide an electronic copy of its FERC Form 60 with the Manager of Accounting of the Commission on the day the FERC Form 60 is filed with FERC;
2. AIC will notify the Manager of Accounting of the Commission within 30 days of implementation of substantial changes to service company allocation factors⁶; and,
3. The Commission should order AIC to provide electronic copies of all FERC orders resulting from a FERC audit of costs or procedures that are subject to allocation or direct assignment to AIC and any responses to FERC by AIC to the Manager of Accounting of the Commission.

⁶ A substantial change in the allocation basis for a function or a change in the calculation of the factor that results in an increase or decrease in AMS costs allocated to AIC by more than 5% or \$5 million, whichever is greater, relative to the prior calendar year.

B. Other Issues

1. Company Use of Fuels

Staff witness Kahle raised a concern over the amounts allocated for Company Use of Fuels. Mr. Kahle noted that in a concurrent Ameren proceeding, Docket No. 13-0301 (Rate MAP-P Modernization Action Plan - Pricing Annual Update Filing or “MAP”), Staff Witness Ebrey questioned whether the Company might recover more than 100% of its Company Use of Fuels. (Docket No. 13-0301, Staff Ex. 1.0, 21-23:451-473.) Mr. Kahle did not propose an adjustment. (Staff Ex. 11.0 (Rev.), 16-17:307-347.)

For Company Use of Fuels, AIC used direct labor as the allocation basis in this proceeding but used general plant as the allocation basis in its MAP proceeding. (Docket No. 13-0301, Staff Ex. 1.0, 21:460-462.) In AIC’s MAP proceeding, Staff determined that direct labor is the appropriate allocation basis for Company Use of Fuels for both AIC’s gas and electric operations. (Docket No. 13-0301, Staff Ex. 6.0, 18:336-346.) Since AIC used the appropriate direct labor allocation basis in this proceeding; however, Staff did not propose an adjustment.

XI. CONCLUSION

WHEREFORE, for all of the following reasons, Staff respectfully requests that the Commission’s order in this proceeding reflect all of Staff’s recommendations regarding the Company’s request for a general increase in gas rates.

Respectfully submitted,

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